DOCUMENT RESUME

ED 133 568 08 CE 009 648

AUTHOR Persons, Edgar A.; Swanson, Gordon I.
TITLE Small Business Management Volume III: Curriculum. An Adult Education Program.
INSTITUTION Minnesota Univ., St. Paul. Dept. of Agricultural Education.; Minnesota Univ., St. Paul. Dept. of Vocational Education.
SPONS AGENCY Office of Education (DHEW), Washington, D.C.
REPORT NO VT-103-484
PUB DATE May 76
GRANT OEG-0-73-5245
NOTE 469p.; For related documents see CE 009 649-651 and CE 009 659

EDRS PRICE MF-$0.83 HC-$24.77 Plus Postage.
DESCRIPTORS *Adult Education Programs; *Business Administration; Business Education; Business Skills; *Curriculum; Curriculum Guides; *Management; Post Secondary Education; *Recordkeeping; Teaching Guides; Unit Plan; Units of Study (Subject Fields)
IDENTIFIERS *Small Business Management

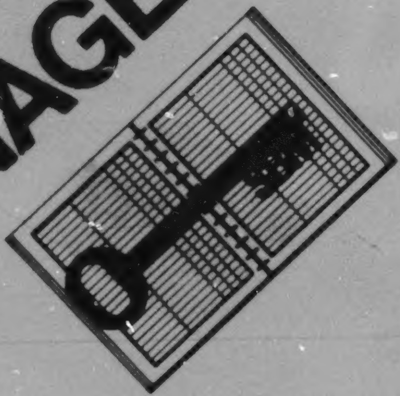
ABSTRACT

The small business management adult education program outlined in this curriculum guide is designed to help small business entrepreneurs solve their business management problems and attain the goals they have established for their businesses and their families. (An instructor's manual and practice problems are in separate volumes.) The 3-year curriculum includes individual at-the-business instruction as an integral part of the teaching plan. The first year deals with the reasons for keeping records, what records to keep, and how to keep them easily and accurately. The second year covers the study and interpretation of the small business analysis. The third year utilizes the records and analyses of the previous years to make plans for future changes in the business, with more emphasis placed on work with individual families at their business and home and less on group instruction. Following an introductory section, the units of instruction (12 to 14 for each year) are presented. Each unit contains the following parts: Student objectives, transition of units (unifying themes), lesson (including key questions and teaching strategies), unit summary, at-the-business instruction, resources and equipment needed, list of references, and appendixes containing student handouts, worksheets, and/or transparency masters. (This guide is one of four volumes produced by the project entitled, "Development, Demonstration, and Evaluation of Management Education Programs for Small Business Entrepreneurs, Including Minorities.") (Author/RG)

Documents acquired by ERIC include many informal unpublished materials not available from other sources. ERIC makes every effort to obtain the best copy available. Nevertheless, items of marginal reproducibility are often encountered and this affects the quality of the microfiche and hardcopy reproductions ERIC makes available via the ERIC Document Reproduction Service (EDRS). EDRS is not responsible for the quality of the original document. Reproductions supplied by EDRS are the best that can be made from the original.

ED133568

SMALL BUSINESS MANAGEMENT



Curriculum

U.S. DEPARTMENT OF HEALTH,
EDUCATION & WELFARE
NATIONAL INSTITUTE OF
EDUCATION

THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY

Volume III

AN ADULT EDUCATIONAL PROGRAM

VT 103 484

CE 009 649

The project presented or reported herein was performed pursuant to a Grant from the U.S. Office of Education, Department of Health, Education and Welfare. However, the opinions expressed herein do not necessarily reflect the position or policy of the U.S. Office of Education, and no official endorsement by the U.S. Office of Education should be inferred.

Developed pursuant to Grant No. OEG-0-73-5245
by the Division of Agricultural Education
in cooperation with the Research Coordinating Unit,
Department of Vocational Education,
University of Minnesota
St. Paul, Minnesota
Funded by the U.S. Office of Education under
Part I - Curriculum Development in Vocational and Technical Education
Vocational Education Amendments of 1968
Public Law 90-576
1976

Discrimination Prohibited -- Title VI of the Civil Rights Act of 1964 states: "No person in the United States, shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance." Therefore, the Vocational and Technical Education program, like all other programs or activities receiving financial assistance from the Department of Health, Education, and Welfare, must be operated in compliance with this law.

SMALL BUSINESS MANAGEMENT
VOLUME III: CURRICULUM

Development, Demonstration and Evaluation of Management Education Programs for Small Business Entrepreneurs, Including Minorities

Project Directors: Edgar Persons, Ph.D.
Gordon I. Swanson, Ph.D.

Project Staff: Rodger Palmer
Craig Schauffert
Ruth Thomas
Peter Probasco
Eugene Norman

Division of Agricultural Education and the Research Coordinating Unit
University of Minnesota
St. Paul, Minnesota
May, 1976

ACKNOWLEDGEMENTS

The work of many has helped shape this program of study. The directors and project staff wish to give credit to some of the people who have made special contributions to this effort:

Earl Bracewell, Lee Kuluvar, Sabra Mumford, Charles Painter, Milo J. Peterson, Donald Priebe, Kiyoshi Yumibe, Howard Kittleson, and Ralph Whiting, consultants;

those who served the project on the professional and businessmen's advisory councils;

the instructors who tested the program during its pilot stage: Emil Hierl, Don Jonson, Roger Krueger, Eldon McCabe, Cliff Olson, Mel Sanderson, Manuel Torres and Clinton Turner;

the staff of the Specialized Data Systems for their expertise in computerized business analysis;

the secretarial staff: Jeanine Stage, Lorraine Meyer and Susan Miller;

and special thanks to the small business entrepreneurs who cooperated with us during the initial phases of project development, demonstration and evaluation.

TABLE OF CONTENTS

INTRODUCTION 1

Elements of a Modern Management Education Program for Small Business Entrepreneurs 2

Instruction in Business Technology 4

Organization of an Instructional Program of Adult Education in Small Business Management 5

Utilizing the Curriculum 8

YEAR I SMALL BUSINESS MANAGEMENT I BEGINNING SMALL BUSINESS RECORDS 11

Unit 1 Stimulating an Interest in Small Business Management 1.1

Unit 2 Showing the Need for Small Business Records 1.13

Unit 3 Measures of Small Business Family Progress and Uses of Small Business and Home Records 1.25

Unit 4 Inventories 1.33

Unit 5 Keeping Small Business Accounts Current 1.43

Unit 6 The Balance Sheet and the Monthly Summary 1.57

Unit 7 Cash Flow and Cash Flow Projection 1.67

Unit 8 Employee Records: Social Security and Income Tax 1.79

Unit 9 Unemployment Compensation, Workmen's Compensation, Fair Labor Standards Act, and Occupational Safety and Health Act (OSHA) 1.85

Unit 10 Employer-Employee Relations 1.95

Unit 11 The Depreciation Schedule 1.107

Unit 12 Income Tax Management 1.127

Unit 13 The End of the Year Inventory 1.133

Unit 14 Closing the Record Book for Analysis 1.139

YEAR II SMALL BUSINESS MANAGEMENT II
SMALL BUSINESS ANALYSIS........................... 2.1

Introduction to Small Business Management II..... 2.2

Unit 1 Calculating Income and Social Security Self-Employment Taxes........................... 2.3

Unit 2 Measures of Small Business Profit............... 2.65

Unit 3 Measures of Small Business Size................. 2.87

Unit 4 General Interpretation of the Analysis........... 2.93

Unit 5 The Importance of Inventories.................... 2.105

Unit 6 Analyzing the Size of Business................... 2.113

Unit 7 Analyzing Mechanization, Labor, Equipment and Building Costs............................... 2.117

Unit 8 Analyzing Major Departmental Efficiencies....... 2.125

Unit 9 Analyzing the Service Department................ 2.133

Unit 10 Evaluation of the Small Business................ 2.141

Unit 11 Income Tax Planning and Management............. 2.147

Unit 12 Closing the Small Business System for Analysis... 2.153

YEAR III SMALL BUSINESS MANAGEMENT III
SMALL BUSINESS REORGANIZATION.................... 3.1

Introduction to Small Business Management III.... 3.2

Unit 1 Attributes of Successful Small Business Entrepreneurs.................................. 3.3

Unit 2 Determining the Most Profitable Level of Operation...................................... 3.9

Unit 3 Selection of Departments....................... 3.17

Unit 4 What Do Two Years of Records Mean?............... 3.23

Unit 5 Evaluating Overhead and General Business Costs.. 3.29

Unit 6 Evaluating the Major Departments................ 3.37

Unit 7 Evaluating the Customer Service Departments.............................. 3.41

Unit 8 Maximizing Income Through Reorganizing Variable Operating Expenses and Pricing.......... 3.45

Unit 9 Maximizing Income Through Reorganizing With Increased Investment of Debt Liability...... 3.61

Unit 10 Maximizing Income Through Reorganization By Additional Capital Investment................. 3.89

Unit 11 Site, Buildings, Merchandise Handling........... 3.113

Unit 12 Planning Transitional Stages..................... 3.129

INTRODUCTION TO VOLUME III*

"Don't bother me with the details, I've already made up my mind." This statement represents an attitude that is all too common for some business entrepreneurs. Small business failures have been reported so often and sometines so dramatically that many people believe that the small business operator doesn't have a chance in the highly competitive economy of today's market place. They make conclusions on the bases of generalizations.

Thus many a potential independent operator is dissuaded from entering the field of small business, and many managers give up after a brief trial. Too often, as the "slogan" suggests, we find that we have already made up our minds before we have examined the specific details of the problem.

However, it can be easily established that the vast majority of small business failures are the result of mismanagement or uninformed management rather than relative size or competition. Here are some interesting facts about small business. Each year on the national scale, we witness about 440,000 "starts" and about 400,000 "closures" or discontinuances of small operations. Not only does this constitute a lot of individual problems or headaches, but it is also the source of a big collective headache in our national economy. They are lost jobs and lost growth in our national productivity.

However, the contribution of the small firm to our national economic life is not insignificant and unimportant: 95% of all businesses in the U.S. are small businesses; 40% of our total business volume is done by small firms and 40% of our working force is employed in small enterprise.

Most important, the failures are not due to a lack of technical know-how in the various fields of buisness endeavor. Only rarely does one trace a failure of an independent electronic enterpriser purely to a lack of knowledge of the field of electronics; of a food distributor to inadequate understanding of the food trade; or of a contractor to inexperience in the building trades. Where these conditions exist at all, one will generally find them combined with the "great failure of being unable to recognize the problem." This is another way of saying they are lacking in "management know-how."

The management problems faced by small business entrepreneurs closely parallel those of the farmer. The increasing complexities of managing a farm business have stimulated increasing numbers of farmers to seek business management education programs which provide tools to deal effectively with managerial problems. The small business entrepreneur of the '70's has the same need for management education.

The complexities of small business management have increased in much greater proportion than the size of the business. In many cases, small business operators must manage with closer margins of profit than in the past. They must be more attentive to the intimate and complex financial details if they expect to remain competitive. Their businesses must be adequately productive to give a return to capital, physical assets, labor and management. They must know which combinations of capital, labor and management will keep their business viable and profitable to meet their needs and expectation. It is necessary that they appreciate priorities in their businesses and that they know where to first direct their energies and resources. They must understand the unique aspects of their businesses very well and must have adequate tools to render timely and competent management decisions.

---

*Excerpts from : Small Business Administration, Success and Failure Factors in Small Business, Administrative Management Course Program, Topic 1, Washington, D.C., U.S. Government Printing Office, 1964, pp. 13-14.

The purpose of this course of study is to outline a complete program of instruction for small business entrepreneurs. It is intended to serve as a guide for instructors of small business management in setting up a program for the local community that will help small business entrepreneurs face the business management problems that are before them and arrive at sound decisions in a logical and systematic manner. It will help them to increase the effectiveness of their business enterprise so that they might attain the goals they have established for their business and their families.

ELEMENTS OF A MODERN MANAGEMENT EDUCATION PROGRAM FOR SMALL BUSINESS ENTREPRENEURS

Small business entrepreneurs of today operate in an increasingly competitive economy and need to know as much as possible about their businesses and the market place in which they operate. Various interrelated factors have been identified in small businesses which can be studied and evaluated to help entrepreneurs gain that knowledge of their businesses and the understanding of the principles by which they function. An instructional program for small business entrepreneurs must guard against oversimplification and view these various factors in proper perspective.

A complete program of management instruction should include two integral components: 1) business management and 2) business technology.

Business Management

The business management component is the foundation for the entire adult program of instruction. Business operators and their families are enrolled in a particular course composed of specific, sequential units of instruction. This study of business management is spread over a period of at least three years to allow families to put into practice what they learn in the classroom and to carry out programs to reach their objectives.

Management is primarily a decision-making process. To be successful in management instruction, it is important that instructors understand the logical organization of activity which leads to making a sound decision. The topics which are suggested in the lessons for business management follow the sequence suggested by the ten steps in the decision-making process. These steps are as follows:

1. Analyze the present situation.
2. Locate the problems.
3. Set up objectives or goals.
4. Size up the resources.
5. Look for possible alternatives.
6. Consider probable consequences and outcomes.
7. Evaluate the expected results.
8. Decide on the course of action.
9. Put the plan into effect.
10. Evaluate the results of the decision.

Since a small business is a dynamic enterprise, it is not possible to locate a problem, consider and choose from among the alternatives, put a new plan into effect and expect the job of business management to be completed. Management decision-making is a continuous process with new problems cropping up and their particular solutions being found. It is likely that several problems will be in various stages of the decision process at any one time. For some problems the small business operator may be establishing goals. For another problem, the present situation is still being analyzed, while for still another, a particular course of action to implement is being chosen. The management education program is simply the starting point in the overall evaluation of the small business and a systematized approach to solving problems that will follow.

Developing an understanding of the basic economic and management principles is an important activity in management instruction. Many of the units of instruction in this book contain examples of the direct application of economic principles to small businesses, even though the principles may not be identified as such in the text. Instructors should be alert to the opportunities to inform the students and their families of the principles which apply to the problems they are studying. However, instructors should avoid directing disproportionate attention to defining and discussing the principles of economics unless there is opportunity to make direct application of the principle to the businesses represented in the class.

The business management phase must have an accurate and realistic source of information as its beginning which will then be used to analyze the present situation, locate problems and aid in setting up objectives. Information about the business is also essential to evaluate the resources. There is only one realistic place to go for such source material and that is to a record of the business and home transactions. No other source can provide the data necessary for sound planning. A full business cycle is necessary before any complete summaries can be made which can be used to aid in the first four steps of the decision process. Therefore, the first year of the business management program will be used to motivate families to keep good records, to inform them how to do it, and to give them an insight into the uses that can be made of the business record.

Individualization in the program for the first year can be developed through at-the-business instruction. At-the-business instruction in the early stages of the program is extremely important in gaining the confidence of the family in the instructor. The instructor must get acquainted with the family and the business without seeming to pry. Care must be taken to keep all discussions and problems of the family on a strictly confidential basis. Any breach of this rule can have nothing but harmful effects. The need for confidentiality will offer no problem to the instructor who uses sound judgment. Many families enjoy discussing their business enterprise and will often inject comments about problems in their business into class discussion. Others, however, are more sensitive about public discussion of their private business.

The effort expended on keeping complete business and home records is wasted unless good use is made of them. Although complete summaries cannot be made until a full business cycle has been completed, many uses can be made of the accounts during the first year. The most obvious are:

1. Checking inventories
2. Providing credit information
3. Checking cash balances and cash flow
4. Planning for income tax
5. Collecting a historical record of price

Any of this information that can be put to good use during the year will make the families more aware of the value of these records and further motivate them to keep accurate and current accounts.

An analysis of the first year's records is a most logical starting place for the beginning of the second year. This analysis can be done best at an analysis center where trained personnel follow carefully planned procedures. Organized classroom material during the second year deals with the general interpretation of a business analysis. Small business families can recognize signs of strength and weakness in their own business by a study of their business analysis. The class material suggested in this book will also furnish background information which will be very useful when the business management instructor helps the family with more specific individual problems on business and home visits.

The third year of the business management component is a continuation of the second in that an additional year's analysis of the business is available for study. Class work emphasizes enterprise efficiencies and deficiencies to a greater degree since trends within the business will begin to appear as shown by the record analyses. Major emphasis during the third year will be placed on a beginning study of business reorganization. Methods for developing reorganization plans will be illustrated through the use of example businesses. Since small business families will approach the actual job of reorganization at varying times, concrete plans for each particular business must be developed on an individual basis. Organizing the small business to better meet business and family goals will be one of the major areas covered on business and home visits.

Instruction in Business Technology

Although due to time limitations top priority in the small business management education program has been put on how to make management decisions based on an accurate analysis of the business operation, it does not mean that the study of business technology is not an important part of the complete program.

The instructor has the responsibility of providing three avenues by which the small business operator can acquire information on business technology. The first is through an adequate library of reference materials available to the class. This library on relevant business topics enables individual class members to seek answers to a wide range of specific questions, including those in the many areas of business technology.

The second way in which the operator has access to information on business technology is through consultation with the instructor during business or home visits, drawing on his or her insights and experience to identify and jointly find solutions to particular problems or to make improvements in the operation of the business. An innovative instructor will be able to weave much instruction on business technology into these visits.

The third way is through participation in a series of classes on various aspects of business technology, which balances and complements the management instruction. The purpose of these classes is to provide opportunities for small business entrepreneurs in the small business management program and in the community at large to get up to date ideas and techniques on business technology in a systematic fashion. This purpose can be accomplished by one or more courses each year on topics such as advertising, employer/employee relations, business security, office machines, public relations and other subjects of value to the operators. Topics to be studied should be chosen on the basis of the needs and interests of the prospective students.

The business technology component fits in well with business management in two respects. First, it furnishes opportunities to members of the small business management group to sharpen up particular aspects of their business found to be weak through the small business analysis. Second, it provides a common meeting ground for the small business management instructor and other small business operators who may be prospective members of the small business management class.

It is suggested that the instructor make use of business consultants, bankers, successful business entrepreneurs and other qualified people who have expertise in specific areas of business technology to assist in presenting these classes. The business technology phase may also provide an excellent opportunity for cooperative programming with the instructor and/or teacher-coordinator in distributive education. A short course in office machines would offer another opportunity for cooperative programming.

ORGANIZATION OF AN INSTRUCTIONAL PROGRAM OF ADULT EDUCATION IN SMALL BUSINESS MANAGEMENT

The adult education program in small business management must be organized in such a manner that at all times the group instruction as well as the individual instruction is aimed toward the overall objectives of the course. To be effective in meeting the needs of the cooperating small business families, it must be systematized around the basic principles of business management.

Adult instruction in small business management is not unlike other courses offered in the public schools. It is systematized instruction with these five characteristics:

1. Specific enrollees in each course.

2. Specific units taught as part of each course.

3. A definite and regular sequence of courses.

4. Continuity between courses with progression toward the most effective business organization and greatest operating efficiency.

5. Individual at-the-business instruction as an integral part of the teaching plan.

As these five features are analyzed, the importance of each becomes very apparent. A small business management instructor would not consider teaching a course in records and recordkeeping until a long range teaching plan has been devised. Individuals should have the first lesson before going on to the second. The student should learn some of the reasons for keeping records before getting into the mechanics of the actual recordkeeping.

In planning a course, an instructor cannot overlook the physical limitations of the available facilities. If classroom facilities can handle twenty students, forty should not be enrolled in the class. If facilities are overcrowded, any course becomes less effective. But more important, without time for individual supervision, the course would be a dismal failure. In addition, the class enrollment must be definite and limited to the number that can be given individual attention and at-the-business instruction.

From the outset, a business management instructor can expect to be faced with such questions as: "Should I expand my business?" This is the kind of loaded question that cannot be answered until many other questions have been raised and answered. The management instructor should consider, though perhaps not ask it directly: "How profitable is your present business?" and "Should you get better before you get bigger?" These questions are just as loaded as the first because the business operator would have to find many other kinds of information before the original question can be answered. In some cases, it will be possible to refer to records that have been kept to find the information needed. In many cases, however, the operator would have to begin keeping records which eventually will furnish the basis for an answer.

Even if they were reasonably certain that it was a profitable business and the capability of the manager warranted expansion, they would find themselves involved in a whole maze of other interrelated questions. What new facilities would be needed if the operation were expanded? How much additional labor would be needed? Could the necessary capital be obtained? What is the future of this type of business in the area? How will this affect the operator's input of management and labor into the business? These many interdependent questions point up the need for taking first things first and of basing instruction on principles first and details later. There's a logical order in which questions must be answered if a sound solution is to be reached.

The educational program in small business management must begin with a good foundation. The educational activities should help the families with the first step, that of building up a stockpile of information about their own business upon which they can base judgments at a later time. The best way to accomplish this task is to develop a good business record system. The use which will be made of record information should be illustrated so business families realize that every entry made will have some future value. Using the Bookkeeping and Tax Record for Merchants facilitates uniformity in the entries and simplifies teaching the mechanics of recordkeeping, and makes a comparative analysis of the data contained in the record possible at the end of the year.

The first year may be called "Small Business Management I" or "Beginning Small Business Records" or a number of other titles. Briefly, the beginning course deals with the reasons for keeping records, what records to keep, and how to keep them easily and accurately. Since most small businesses are year-round operations, keeping business records must also be a year-round task. This makes it possible to hold organized class meetings throughout the entire year, with meetings being held more frequently in late fall and early winter when the new year's records are being started and the past year's records are being completed.

The individualized at-the-business instruction during the first year will accomplish several purposes. It will enable the instructor to become acquainted with the operator's business and family and to gain their confidence. It will also furnish opportunities for instruction in business accounting problems that require the kind of personal attention not possible in a larger group. Assisting the business family in the establishment of business and family goals is an important task for the first year.

The kind of relationship that is developed during the first year between the instructor and the small business family will determine the degree of success which the family has in successive years in the management program. Some at-the-business visits during this year will be devoted to improving business practices that are not related directly to efficient management. Many times, work of this kind--though relatively unimportant as far as the whole business operations is concerned--furnishes the opportunity to develop better communication between the instructor and the small business family. A business or home visit each month during the first year in addition to one or more class meetings per month, should provide the kind of contact needed to maintain a high level of interest and to deal with problems related to keeping and using the small business accounts. It also allows the instructor to observe and review other business practices while at the business. Closing out the account book and sending it to the appropriate computer center for analysis will complete the first year of instruction.

The second year is a natural continuation of the first, dealing with the general study and interpretation of the small business analysis as well as the specific study and interpretation of the first small business analysis of the operator's individual business. As the families become better acquainted with the account book procedures, considerably less time will be spent on instruction in recordkeeping than was spent during the first year. As accounts for the second year are begun, accuracy of entries and greater accuracy in inventories and depreciation are stressed with the main emphasis on the study and interpretation of the past year's analysis, both in general and of each individual business. The instructor helps the class members see signs of strength and weakness within their business and points out the need for further study of these areas. Major study can be made of capital investment in resale items, machinery, equipment and buildings on the basis of one year's record. Size of the business as measured in net returns can also be emphasized. Other efficiencies should also be studied but only preliminary judgments can be made on the basis of one year's record.

The third year of the small business management program may be called "Small Business Organization" or "Advanced Small Business Management" or any other similar title. During this phase, business and home accounts will be continued and the analysis report for the second year's record will be completed and interpreted. The analyses begin to be useful in making plans for future changes in the business. Studies can now be made to project various changes that can be made in the structure of the business to improve income. The importance of transitional stages when major changes are contemplated must be given considerable emphasis.

As the small business family progresses toward the development of alternative plans and the selection of the most appropriate, more emphasis will be placed on work with individual families at their business or home and less on group instruction. The help of specialists in business security, employee relations, advertising and other areas of business technology is especially important and worthwhile for the small business family and the instructor.

While this course of study does not contain a lesson outline for units beyond the third year, this omission should not be interpreted as placing little value on continuing instruction. Experience in other management programs has shown that some families require the most assistance beyond the third year. As they plan a reorganization of their business, they need additional help in searching out the alternatives and evaluating the outcomes of their many possible decisions. Research on other management instructional programs continuing well beyond the third year demonstrates the highest returns for educational investment beginning with the sixth and seventh years.

In the case of farm management instruction, research shows that improvement in farm operation organization and efficiency is highly individualized. It is believed that experience and research will find this to be true for instruction in small business management as well. Instructors must be patient and allow small business families ample time to weigh possible alternatives thoroughly before making their decisions. Management is, primarily, a decision-making process, but making the decision is the prerogative of the small business family.

UTILIZING THE CURRICULUM

The curriculum is divided into three years under the headings of Small Business Management I, II, and III. It is extremely important for the instructor to become familiar with the entire curriculum before any instruction begins. The instructor will note the continuity between units and the sequence of instruction.

Each unit of instruction includes the following parts:

Part I. Student Objectives

Part II. Transition of Units

Part III. Lesson

Part IV. Summary

Part V. At-The-Business Instruction

Part VI. Resources

Part VII. References

Part VIII. Appendices

The following explanation of how to use the curriculum will generally apply to each unit.

Part I. Student Objectives:

The objectives try to specify under what conditions and to what extent a certain kind of student performance is expected to take place.

If you follow the axiom that if the student hasn't learned, the teacher hasn't taught, then the student behavioral objectives also become the teacher's objectives.

Part II. Transition of Units

The transition briefly describes what was covered in the previous unit, the main focus of the current unit and outlines the following unit. The transition is intended to show the continuity between units and the sequence in which the instruction is offered.

Part III. Lesson

Each lesson begins with a suggested attention focuser. Most class members will have their minds on the problems of the day. The instructor needs some means of focusing attention on the topic of the unit.

The lessons include key questions and suggested teaching strategies. The instructor may wish to write the key question on a chalkboard and direct the class activity toward answering the question. The information relevant to the key question has been presented in outline form and may include definitions, calculations and uses.

Part IV. Summary

A good teacher will summarize the unit at the end of the class session. This suggested summary may be used for that purpose.

Part V. At-The-Business Instruction

The teacher is expected to make an organized visit to each participant's business on a regular basis. The suggested activities begin with a review of the subject matter taught in the previous unit. Additional suggestions are made to aid the instructor in planning the At-The-Business visit.

Part VI. Resources

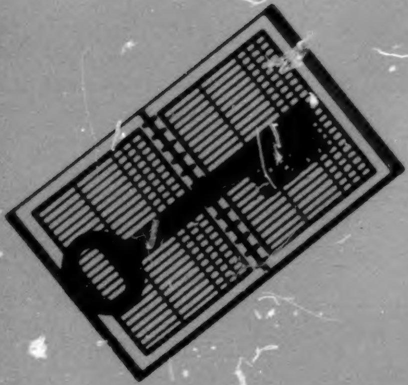
This part lists the physical objects the teacher will find necessary to present the unit.

Part VII. References

References are included for the benefit of the instructor who wishes to expand his knowledge of the subject matter of the unit.

Part VIII. Appendices

Items suggested for use as handouts, worksheets or transparencies are included in this part.



SMALL BUSINESS MANAGEMENT I

BEGINNING SMALL BUSINESS RECORDS

UNIT 1 STIMULATING AN INTEREST IN SMALL BUSINESS MANAGEMENT 1.1

UNIT 2 SHOWING THE NEED FOR SMALL BUSINESS RECORDS 1.13

UNIT 3 MEASURES OF SMALL BUSINESS FAMILY PROGRESS AND USES OF SMALL BUSINESS AND HOME RECORDS 1.25

UNIT 4 INVENTORIES 1.33

UNIT 5 KEEPING SMALL BUSINESS ACCOUNTS CURRENT 1.43

UNIT 6 THE BALANCE SHEET AND THE MONTHLY SUMMARY 1.57

UNIT 7 CASH FLOW AND CASH FLOW PROJECTION 1,67

UNIT 8 EMPLOYEE RECORDS: SOCIAL SECURITY AND INCOME TAX 1.79

UNIT 9 UNEMPLOYMENT COMPENSATION, WORKMEN'S COMPENSATION, FAIR LABOR STANDARDS ACT, AND OCCUPATIONAL SAFETY AND HEALTH ACT (OSHA) 1.85

UNIT 10 EMPLOYER-EMPLOYEE RELATIONS 1.95

UNIT 11 THE DEPRECIATION SCHEDULE 1.107

UNIT 12 INCOME TAX MANAGEMENT 1.127

UNIT 13 THE END OF THE YEAR INVENTORY 1.133

UNIT 14 CLOSING THE RECORD BOOK FOR ANALYSIS 1.139

Year I--Unit 1

STIMULATING AN INTEREST IN SMALL BUSINESS MANAGEMENT

Part I. Student Objectives

A. Utilizing current or available data on small business size with respect to number of employees, business volume and capital investment, the student will be able to identify the changes in business over the past ten years.

B. Given the percentage of failure among U. S. retail businesses and supportive data on causes for business failure, the student will be able to identify the high failure rate in the early years of business establishment and the significant reasons for those failures.

C. Utilizing current or available data on sales volume of U. S. retail businesses and family cost of living data, the student will be able to identify the connection between increased family needs and the trend toward larger businesses.

D. With handouts on the small business tree, "Rate Your Goals" and "What Does Your Family Want?", and the opportunity for family and class interaction, the student will be able to define business and family goals and evaluate present status in meeting these goals.

Part II. Transition of Units

The previous chapter designed for the instructor's benefit is an introduction to the first year units and to the overall philosophy of the small business management program.

The important task of tying family and business goals together begins in this unit with discussion and writing goals. The increasing change and complexity of small business and rising costs of family living are emphasized.

The following unit deals with the wide variations in earnings among businesses and introduces the need for records to deal with the causes of these variations.

Part III. Lesson

Attention Focuser

Ask each student to estimate what their hourly return was, based on last year's earnings, what each minute was worth and what one hour per day was worth over a year's time. Have them write these figures on a piece of paper. Then distribute Appendix D, "What's Your Time Worth?" with calculations based on a business in operation 48 weeks a year, six days a week, with the operator putting in eight-hour days. Have the students compare their estimates to the figures on the table. Point out that each individual's time has a value based on level of earnings. However *this doesn't negate the importance of things other than money.*

KEY QUESTION 1. How has small business changed in recent years?

A. It is evident from Table 1 that in terms of the number of employees, the size of businesses is increasing. There are fewer businesses in Minnesota with 1 to three employees today than there were five years ago. The number of businesses has increased in every category above the 1 to 3 employee grouping. The statistics do not necessarily indicate that small businesses have grown larger in terms of the number of employees, but rather that there are fewer of them.

TABLE 1. Number of Employees per Business in Minnesota (U. S. Bureau of the Census, County Business Patterns, 1965, p. 251 and 1971, p. 261)

Number of Employees	1965	1971	Change
1 - 3	35,898	30,569	-5,329
4 - 7	12,938	13,998	+1,060
8 - 19	9,934	11,961	+2,027
20 - 49	3,837	5,281	+1,444
50 - 99	1,317	1,731	+ 414
100 - 249	669	878	+ 209
250 - 499	182	282	+ 100
500 or more	138	190	+ 52
TOTALS	64,913	64,890	- 23

B. Business volume for single proprietor businesses shows some growth during the nine-year period reported in Table 2. Special note should be made of the average gross per business and the average net profit. The rate of business failure shows a decline during this time span. It may be important to point out that the rate fluctuates rather widely from year to year: 34/10,000 in 1950, 57/10,000 in 1960, and 44/10,000 in 1970. Class members may wish to speculate on why the failure rate is so unstable.

TABLE 2. Business Volume of Individual Proprietorships in the U. S. (U. S. Bureau of the Census, Statistical Abstract of the U. S., 1972, p. 469.)

	1960	1965	1966	1967	1968	1969	Change '60-'69
Number (in thousands)	9,090	9,078	9,087	9,126	9,212	9,430	+ 340
Ave. Gross Rcpts/ Business (calcu)	$18,811	21,921	22,779	23,120	24,099	24,814	+5,288
Net Profit/ Business (calcu)	$2,310	3,084	3,301	3,287	3,473	3,605	+1,295
Rate of Business Failure/10,000	57	53	-	-	39	37	

C. Comparisons of changes in actual investment are not readily available. However, the increase in investment for retail businesses between 1960 and 1969 was about $7,300. (U. S. Bureau of the Census, Statistical Abstract of the U. S.--1972) Interest on the additional investment (6% per annum) would use up much of the additional profit reported for retail firms. Class members may be able to provide data on the relative size of their business investment during the 1960-69 period.

Suggested Teaching Strategy

This teaching strategy may be used for Key Questions 1 - 3. Keep in mind that the purpose of this unit as outlined in the objectives is to illustrate the changing nature of business and the need for a profitable business to meet family goals.

After writing the key question on the board, allow about five minutes for each family to write down their reactions. They may list the ways they think small businesses have changed or possible causes for small business failure.

Record a number of their ideas on the board, allowing for discussion, then use the information in this unit or other current data to illustrate the actual changes that have taken place.

KEY QUESTION 2. When and why do businesses fail?

Table 3 shows at what stage of development businesses are most likely to fail. While over half of the business failures occur during the first four years the business is in operation, longevity in a business does not provide immunity from failure. Many businesses fail even after they have been operating for more than 10 years. Causes for business failure may be many, but the Small Business Administration reports that 92% of business failure is due to management failure. (S. B. A., Success and Failure Factors in Small Business, p. 20) They further report that over 90% of the unsuccessful firms either failed to keep adequate records or failed to use the records kept. (S. B. A., Records and Credit in Profitable Management, p. 14)

TABLE 3. Percentage of Failure Among U. S. Retail Businesses Annual Average, 1958-1967 (U. S. Bureau of the Census, Statistical Abstract of the U. S.--1972)

Year In Which Failure Occurs	Percent Failures Occurred This Year
1st year	3.9%
2nd year	20.5
3rd year	18.7
4th year	12.2
5th year	8.9
6th year	5.9
7th year	4.5
8th year	3.6
9th year	2.8
10th year	2.3
Over 10 years	17.6
	100.0%

KEY QUESTION 3. What is the relationship between the cost of family living and the amount of annual sales?

A. It is interesting to compare the number of retail establishments in 1958 with those in 1967 at various levels of annual sales. This is a further indication of size trends in retail business establishments. While it is generally true that the size of businesses has been increasing, there are still a large number of businesses that are very small. If we look just at retail trade (Table 4), we find that in 1958 there were 75,064 establishments that had annual sales of less than $5,000. In 1967 this had increased to 89,030 establishments with annual sales of less than $5,000. This is important to note when discussing family needs.

TABLE 4. U. S. Retail Businesses By Annual Sales Volume, 1958 and 1967 (Office of Business Economics, Survey of Current Business)

	Number of Establishments		
Annual Sales Volume	1958	1967	Change
Less than $5,000	75,064	89,030	+13,966
$5,000 to $9,000	146,805	130,776	-16,029
$10,000 to $19,000	242,589	201,506	-41,083
$20,000 to $29,000	201,886	161,679	-40,207
$30,000 to $49,000	238,178	225,823	-61,355
$50,000 to $99,000	316,998	322,761	+ 5,763
$100,000 to $299,000	265,346	358,570	+93,224
$300,000 to $499,000	49,125	73,702	+24,577
$500,000 to $999,000	35,740	55,400	+19,660
$1,000,000 or more	25,178	50,323	+25,145
TOTALS	1,646,909	1,670,570	+23,661

According to Table 4, the largest number of retail establishments in 1958 was in the range of $50,000 to $99,000 annual sales per year. In 1967 the number of retail establishments in all the groupings from $50,000 and up had increased, with a decrease in all groupings below $50,000 except the less than $5,000 group. It is interesting to note the the number of retail establishments having annual sales of $1,000,000 or more doubled from 1958 to 1967. Obviously the average size of the retail establishment is getting large in terms of sales.

B. Family Needs

The class should discuss this increasing size in terms of what it means to the small business entrepreneur. Special note should be made of the number of establishments with less than $5,000 annual sales and of those with $5,000 to $9,000 sales. It should be noted that these are all establishments that operated the entire year. What can these small retail establishments contribute toward attainment of family goals? What will their future be?

Although family needs vary widely from family to family, some idea of the level of earnings necessary to support an average family can be gained by examining the household and personal records kept by farm families.

TABLE 5. Cost of Family Living--Minnesota, 1960 and 1972 (Austin AVTI, 1960 and 1972, Table 4)

	1960	1972
Family Living Expense	$6,020	$9,257
Family Size (Adult Equivalent)	4.8	3.7

KEY QUESTION 4. What are some important considerations in determining family goals?

A. Comparison of the Business and the Family Needs to a Growing Tree

There was a time when many businesses were thought of simply as a "way of life." In some small businesses, the family still thinks in these terms. Although each family has a different standard of living which stems from different goals and values, most small business families are no longer content to do without the goods and services which other people enjoy. Consequently, the profit motive is an important aspect of small business operation.

A small business today is highly complex. It can be compared to a tree in which the "soil" of physical assets, labor and capital is cultivated by the small business family to grow a thriving small business "tree" (see diagram of tree). Caring for the root system is essential. With careful management the family tries to develop the main root system for the sales and service program. A good location, adequate service to customers, good advertising, inventory control, etc. are all needed for vigorous growth. The products developed flow through the market structure and provide income for use in paying debts, making business improvements and for family living. This income, along with community facilities and the time, energy, health, skills and knowledge of the family members, are the resources available for meeting the family needs of recreation, education, shelter, clothing, food, home improvement and so on. Whether this proves to be a satisfactory level of living or not will depend upon the family's goals and the adequacy of the small business.

B. What Does Your Family Want?

Family needs and desires are the motivation for good management of the home and the small business. The following things are important when determining family goals and priorities:

1. Get expression from everyone in the family. It's the simplest way to ensure that personal desires and ambitions don't remain hidden.

2. Try to get agreement on what things are most important. It makes for happier relationships among family members and is a method of teaching values to children. Striving for and attaining goals based on values of the family as a whole will lead to greater satisfaction.

3. Recognize that there are both individual and family goals. John's desire to become a basketball star may be individual while taking a vacation each year is probably a family goal. An individual's

goal becomes the family's when they decide to use family resources to make it possible.

4. Discuss both short term and long term goals. Some things can be done immediately. Others, like a college education for the children, may be far in the future but should be discussed now in order that steps can be taken towards reaching them.

5. Consider available resources when selecting goals. Be realistic about what is possible to achieve or the family will become discouraged or dissatisfied.

6. Competition among goals is normal and desirable. None of us can ever have all we want of everything. Competition of this sort helps us to decide what is more important and makes us work harder to use our resources efficiently.

7. Modify goals as the family's needs and desires change, as resources change, or as the family is able to use their resources more efficiently.

The question remains whether the small business can be organized or made efficient enough to reach family goals. Unit 3 will deal more with family goals and their relationship to business programs.

Suggested Teaching Strategy

Without disturbing the seating arrangement divide the class into groups of four or five persons. Ask each group to make a general list of the kinds of resources they can think of that are available to them for use in their business. Suggest one or two items to give them a start, such as a building to house the business, land on which to establish a business, etc. Ask each group to make a list of at least five resources they consider to be essential for the successful operation of the business.

Ask each group to report back, each choosing one item from their list, until you have exhausted most of the ideas from the group. Discuss the items briefly, suggesting that they might be grouped into more general headings. Using the transparency of the management tree, continue the discussion illustrating the specific points enumerated in the subject content.

When you have firmly established the link between the business and family goals, introduce the "Rank Your Goals" worksheet. Distribute a copy to each class member, asking husbands and wives to work independently to complete the sheet. Allow five to ten minutes for this task. When all have finished, inquire how many husband and wife teams ranked the same goal as their first priority; how many ranked the same goal as least important. (Note: compare only within families, not between them.) Some families may wish to discuss why the members of the family have not chosen the same goals.

Bring into the discussion some of the points listed in Section B, "What Does Your Family Want?". Ask families to reexamine the goals they have listed based upon the points brought out in the discussion. Distribute another "Rank Your Goals" sheet to each family and ask that they *consolidate the goals of the family on a single sheet. Have the family turn in the summary sheet for their working file.*

The discussion should stimulate family discussion of goals outside of the classroom. Distribute the worksheet on "What Does Your Family Want?". Discuss the kinds of goals that families may wish to consider under each of the headings. Instruct the family to complete the worksheet at home prior to your next visit. Inform them that you will want to discuss the goals they have established. Offer to assist them in putting their goals into statements if they seem reluctant to complete the worksheet.

Part IV. Summary

A. Businesses have changed over the past 10 years and will probably continue to change over the next 10.

B. One change that is evident is the increased income required for family living. Relate the increased need for income to changes that will have to occur in the business.

C. The business exists to supply the income and other factors that satisfy family goals. Each family has to decide how big their tree needs to be to support the family needs and desires.

D. The first step in getting someplace is deciding where you are going. Setting family goals is an important first step in the management process since it points the direction the business must take to satisfy family desires.

Part V. At-The-Business Instruction

Get acquainted with the family and the business. Go over the present status of the business and review business goals and future plans. Go over the "What Does Your Family Want?" sheet with the family and discuss family goals.

Part VI. Resources

Overhead Projector
Chalkboard, Chalk and Eraser
Handouts: "Rate Your Goals," "What Does Your Family Want?" and "What's Your Time Worth?"
Transparencies of "Family Living Tree" and Tables 1 - 5
SBA Transparencies 32, 34, 35, 45, 52, 111, 106
Supply of Lined Paper and Pencils

Part VII. References

A. References Cited

1. Austin Area Vocational Technical Institute, Department of Agricultural Education, University of Minnesota, and the Vocational Division of the Minnesota Department of Education, Vocational Agriculture Farm Management Program--Annual Report, 1960 and 1970, Table 4.

2. Office of Business Economics, U.S. Department of Commerce, Survey of Current Business, Washington, D.C., U.S. Government Printing Office, Vol. 49, 1968.

3. Small Business Administration, Records and Credit in Profitable Management, Administrative Management Course Program, Topic 2, Washington, D.C., U.S. Government Printing Office, 1964.

4. Small Business Administration, Success and Failure Factors in Small Business, Administrative Management Course Program, Topic 1, Washington, D.C., U.S. Government Printing Office, 1964.

5. U.S. Bureau of the Census, U.S. Department of Commerce, County Business Patterns, Washington, D.C., U.S. Government Printing Office, 1965 and 1971.

6. U.S. Bureau of the Census, U.S. Department of Commerce, Statistical Abstract of the United States: 1972, 93rd Edition, Washington, D.C., U.S. Government Printing Office, 1972.

B. Other References: None

Part VIII. Appendices

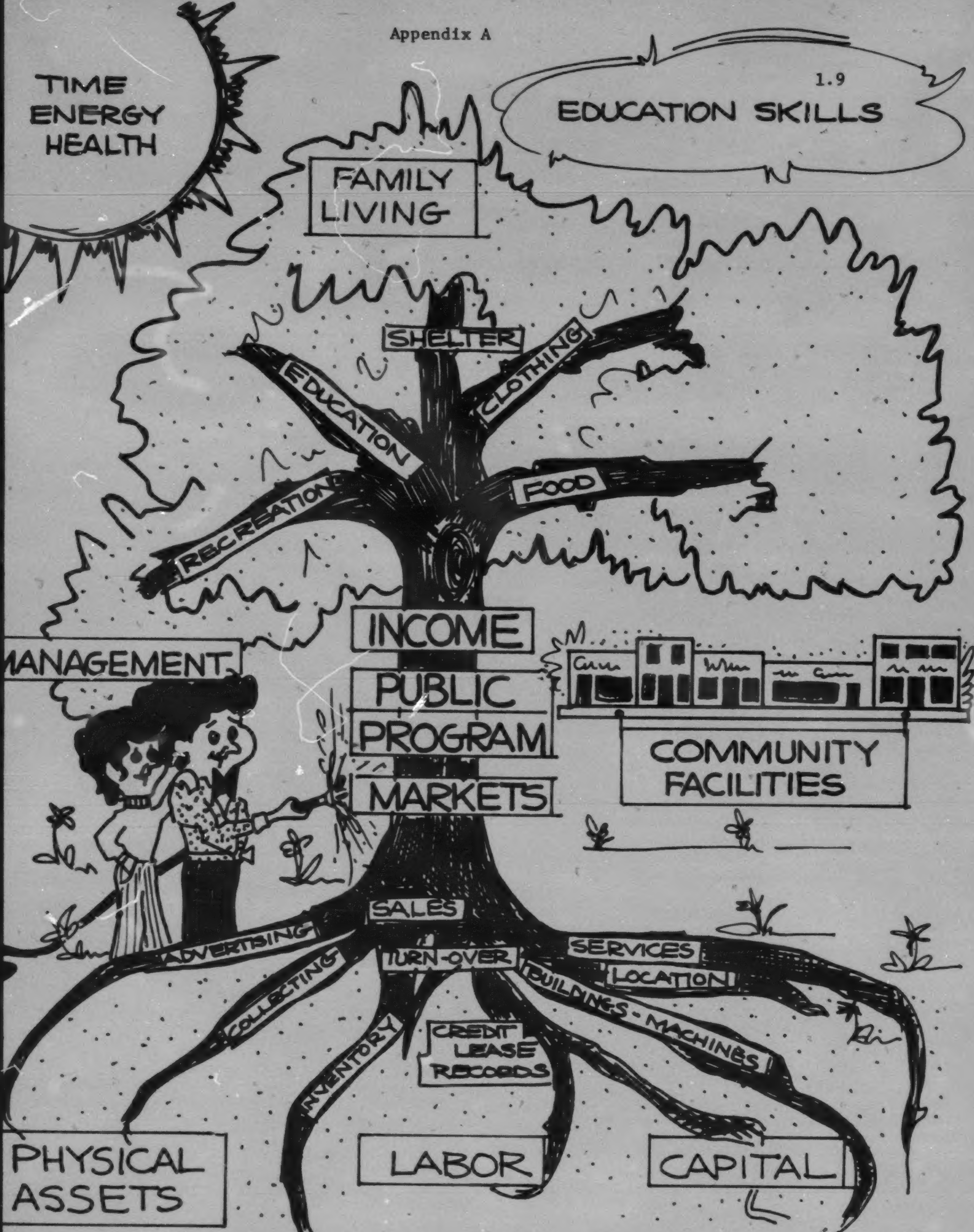
A. Small Business Tree

B. Rate Your Goals

C. What Does Your Family Want?

D. What's Your Time Worth?

1.9


TIME
ENERGY
HEALTH
EDUCATION SKILLS
FAMILY LIVING
SHELTER
CLOTHING
EDUCATION
FOOD
RECREATION
INCOME
MANAGEMENT
PUBLIC PROGRAM
COMMUNITY FACILITIES
MARKETS
SALES
ADVERTISING
SERVICES
TURN-OVER
LOCATION
COLLECTING
BUILDINGS - MACHINES
INVENTORY
CREDIT
LEASE
RECORDS
PHYSICAL ASSETS
LABOR
CAPITAL

Appendix B

Rate Your Goals[1]

Rate the following goals in terms of their importance to you. List number 1 after the goal that is most important, etc.

_____1. To provide more leisure time to engage in hobbies, to enjoy good friends, and for self-improvement.

_____2. To provide an attractive, comfortable and efficient home to meet family needs and happiness.

_____3. To provide the needs of business operations with modern equipment and buildings before improving the home.

_____4. To provide economic security; to be reasonably certain of ensuring an income adequate for family needs.

_____5. To provide for the needs of the home, using credit and other income before improving the business operation.

_____6. To provide financially for good educational opportunities for the children.

_____7. To enjoy good health.

_____8. To provide as much income as possible from the operation of the business.

_____9. To provide income levels from the business which will enable continued enjoyment of its freedom and independence.

_____10. To help plan and use influence in guiding policies and activities in the community for worthwhile purposes.

List 5 specific things you wish to accomplish in the next couple of years.

1.____

2.____

3.____

4.____

5.____

Name____________________________ Address______________________________

Husband____ Wife____ Single Man____ Single Woman____

---

[1] Adapted from "Rate Your Goals", Agricultural Extension Service, University of Minnesota. FA-43. St. Paul.

Appendix C

What Does Your Family Want?

Name____ Date____________

Address____

One of the steps for improving the home and business is to clarify what is wanted. You may know of things you've wanted as a family, but it takes considerable thought and discussion among family members to agree upon what is most important and which things come first. As a family, write down your goals for this year and for the future, then number them in order of priority.

	This Year	Later
For a Profitable Business:		
For Satisfying Living:		
For Development of Family Members:		
For Long-Term Financial Security:		

Appendix D

What's Your Time Worth?

If You Earn	Every Hour Is Worth	Every Minute Is Worth	In A Year One Hour A Day Is Worth
$2,000	$0.87	$.014	$250
2,500	1.08	.018	312
3,000	1.30	.022	375
3,500	1.52	.025	437
4,000	1.74	.029	500
5,000	2.17	.036	625
6,000	2.60	.043	750
7,000	3.04	.051	875
7,500	3.25	.054	937
8,000	3.47	.058	1000
8,500	3.69	.061	1063
10,000	4.34	.072	1250
12,000	5.21	.087	1500
14,000	6.08	.101	1750
16,000	6.94	.116	2000
20,000	8.68	.145	2500
25,000	10.85	.181	3125
30,000	13.02	.217	3750
35,000	15.20	.253	4375
40,000	17.36	.289	5000
50,000	21.70	.362	6250
75,000	32.55	.543	9375
100,000	43.40	.723	12500

Based on 288 eight-hour working days. (48 weeks x 6 days/week)

Year I--Unit 2

SHOWING THE NEED FOR SMALL BUSINESS RECORDS

Part I. Student Objectives

A. Given a sample "Range of Operator Labor Earnings" table and an opportunity to discuss it, the student will be able to identify reasons for variations in the table.

B. Given a sample table on the "Number and Percent of Households" and an opportunity to discuss this table, the student will be able to identify how this information relates to one's standard of living.

C. Given copies of "Formulas for Ratios" and "Ratios and Other Measurements For Your Company and the Industry", the student will be able to identify how major factors, identified by the instructor, affect small business earnings, and will be able to identify what influence management has on these factors.

Part II. Transition of Units

The previous unit dealt with business and family goals and the impact recent business changes have had on the family business. The increasing complexity of small business and the need for critical analysis of the business was also covered.

This unit deals with the variations in earnings among businesses and among families. The use of ratios and other measurements to identify major factors in business analysis is introduced.

The following unit will tie the status of home and family goals to those of the business. The basic areas of recordkeeping are also introduced in this unit.

Part III. The Lesson

Attention Focuser

Tape three envelopes to the chalkboard. Mark them plainly 1, 2 and 3 (left to right). Put $5.00 in # 1, $1.00 in # 2 and 1¢ in # 3. Through some random method select one class member who will be allowed to pick one envelope. Tell the class the amounts of money in the envelopes but not where they will appear in each envelope. After the selected class member has picked an envelope and checked to see the amount of money enclosed, open the other two envelopes and illustrate the straightforward orderliness of the numbering and amounts of money. This can be used to illustrate the value of knowing and using a good system of business records and analysis. (Allow the selected class member to keep the money -- if you can afford it!)

KEY QUESTION 1. How much do earnings vary among small businesses?

Suggested Teaching Strategy

Figure 1 in the Appendix, "Range of Operator Labor Earnings", shows graphic results of approximately 300 farm families enrolled in a farm management program in 1972. It is projected that a similar graph will become available for small business families as the management program matures. In addition to the average earnings figure, many management reports will also divide out the most and least profitable groups.

Hand out the figure on earnings and discuss it. Point out that each business operator with an analysis can identify his or her earnings position on the graph and compare it with the standings of other business entrepreneurs or groups of businesses.

KEY QUESTION 2. How much do household earnings vary in the United States?

Suggested Teaching Strategy

Hand out Table 1, "Number and Percent of Households by 1972 Household Income". Discuss the range of earnings shown on the table and relate the labor earnings data from Key Question 1 to their respective positions on the household earnings table.

KEY QUESTION 3. How can income or earnings variations be explained?

Suggested Teaching Strategy

A. *Give the class an opportunity to respond to each of the following questions. With a show of hands find out how many of the class members could give accurate answers to questions 1 - 3. List responses from the class to question 4 on the chalkboard.*

   1. *What was your net operating profit for 1972?*

   2. *How would your current ratio, ownership equity or turnover of total assets compare with those of your neighbors?*

   3. *Do you show a high return on your total assets and a high return on your net worth?*

   4. *What are some of the factors which may make earnings vary? Over which variable factors do you have some control?*

B. *Pass out "Formulas for Ratios" and "Ratios and Other Measurements for Your Company and the Industry". Demonstrate on the board how some of the ratios would have application to business operations represented in the class. Briefly discuss the value to a business of a worksheet like "Ratios and Other Measurements. . ." Demonstrate on the board the calculation of two or three, but not more than six of the ratios on the page.*

The instructor may wish to use some of the examples found in Year II, Units two and three, on the calculation of ratios and measurements. In addition, the use of the financial statements found in Year I, Unit six, might add substantially to the presentation.

It would be easy for the instructor to spend too much time at this stage of the course on these ratios. Plan to spend not more than ten minutes of class time on the ratios. Point out that business analysis will be the major focus of the program later on.

C. *After informal discussion on these and related questions, show how the business management factors point toward the answers. Point out that each family can compare itself with the average, the most profitable and the least profitable groups.*

Illustrate that a summary measure such as the net operating profit can be compared among groups of businesses, but more significantly, net profit from various departments of business can contribute or detract from the profitability of a business.

Show briefly how these factors are interrelated. Since a detailed analysis study will not be made at this time, discussion should be kept on a general level even though it may lead to some oversimplification. A detailed study of each factor will be made during the second year.

D. *To give further dimension to the discussion of Item 3, either pass out copies of the National Farm and Power Equipment Dealers' Association publication Cost of Doing Business Study for 1972: Financial and Operating Profiles of Farm and Industrial Equipment Dealers or pass out copies of appropriate tables that you have duplicated from this publication. Ask the class to point out differences they find between high profit and low profit dealers.*

Part IV. Summary

A. Many of the reasons for variance in earnings from business to business can be shown through small business records and analysis.

B. Small business records are the "nuts and bolts" to which the "tools" of ratios and measurements are applied in making an analysis of the business.

C. The wide range of family earning in the United States as shown in small business records has an impact on the standard of living of the business family.

Part V. At-The-Business Instruction

Observe the business area, location, building, equipment, inventory level and general business-like appearance of the whole operation. Ask the business operator to estimate the profit level of the various departments of the business. Assist him/her in estimating costs and allocating expenses to various departments of the business.

If appropriate and necessary, assist the business operator in understanding some of the concepts presented at the formal class meeting.

Part VI. Learning Resources

Overhead Projector
Chalkboard
Handouts: "Formulas for Ratios", "Ratios and Other Measurements for Your Company and the Industry", Figure 1, and Tables 1 and 2 (all from the appendix)
Transparencies of Figure 1 and Tables 1 and 2
SBA Transparencies 41, 48 and 69
Supply of Lined Paper and Pencils

Part VII. References

1. Duluth Area Vocational Technical Institute, Department of Agricultural Education, University of Minnesota and the Vocational Division of the Minnesota Department of Education, Vocational Agriculture Farm Management Program--Annual Report, 1973.

2. National Farm and Power Equipment Dealers Association, Cost of Doing Business Study for 1972: Financial and Operating Profiles of Farm and Industrial Equipment Dealers, St. Louis, 1973.

3. U.S. Bureau of the Census, U.S. Department of Commerce, Current Population Reports, Consumer Income Series No. P-60, No. 89, Washington, U.S. Government Printing Office, July, 1973.

Part VIII. Appendices

A. FIGURE 1. Range of Operator Labor Earnings-Farm Businesses

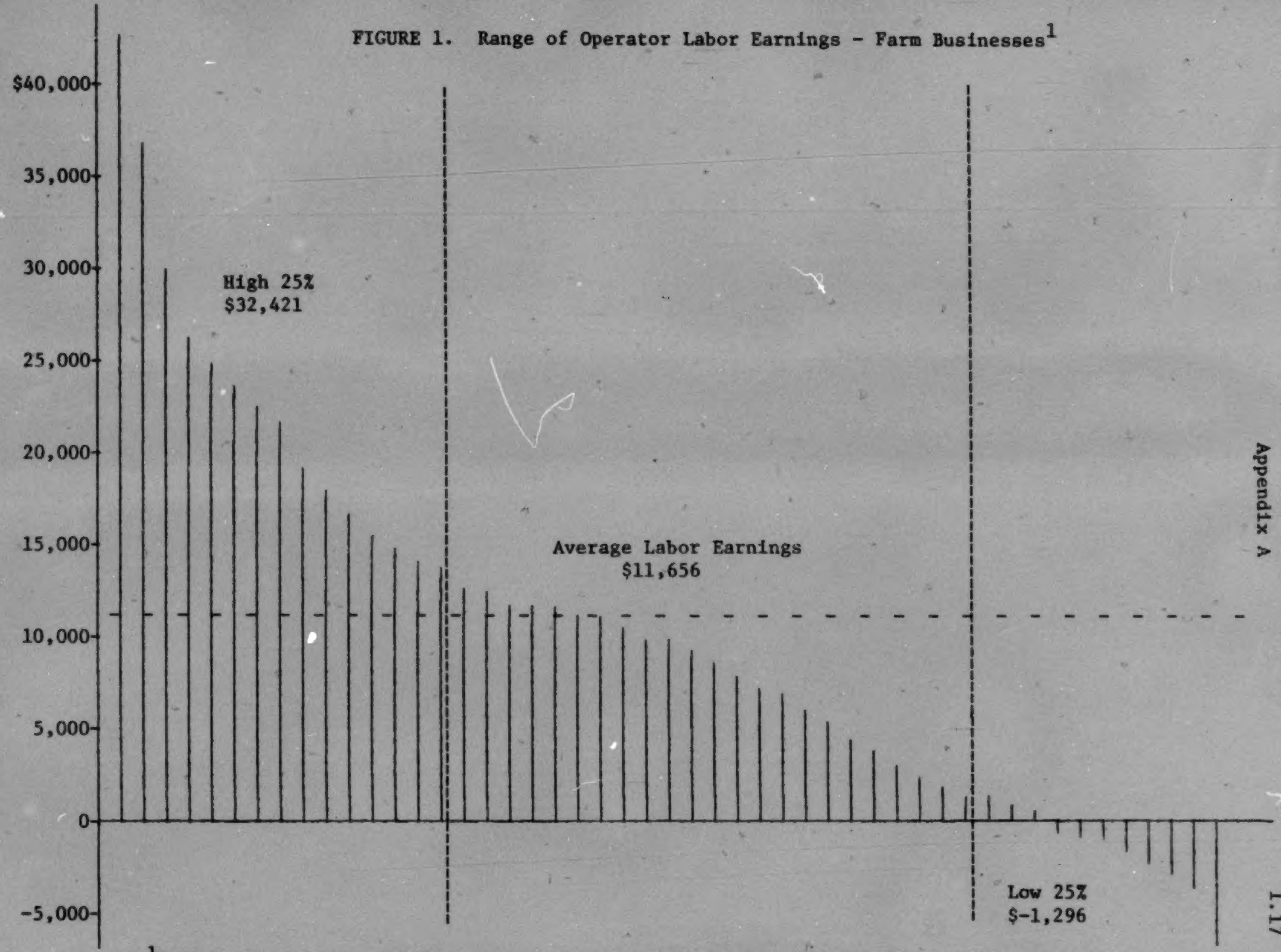
B. TABLE 1. Number and Percent of Households by 1972 Household Income

C. TABLE 2. Measures of Business Organization and Efficiency National Farm and Power Equipment Dealers Association-1973

D. Formulas for Ratios

E. Ratios and Other Measurements for Your Company and the Industry

FIGURE 1. Range of Operator Labor Earnings - Farm Businesses[1]



---

[1] Duluth Area Vocational Technical Institute, Department of Agricultural Education, University of Minnesota and the Vocational Division of the Minnesota Department of Education, Vocational Agriculture Farm Management Program--Annual Report, 1973.

Appendix B

TABLE 1. Number and Percent of Households by 1972 Household Income[3]

Household Income	Number of Households	Percent
Under $1,000	1,523,000	2.2%
$1,000 to 1,999	3,605,000	5.2
2,000 to 2,999	4,276,000	6.2
3,000 to 3,999	3,894,000	5.7
4,000 to 4,999	3,777,000	5.5
5,000 to 5,999	3,652,000	5.4
6,000 to 6,999	3,558,000	5.2
7,000 to 7,999	3,752,000	5.5
8,000 to 9,999	7,178,000	10.5
10,000 to 11,999	7,025,000	10.3
12,000 to 14,999	8,647,000	12.7
15,000 to 24,999	13,139,000	19.3
25,000 and over	4,227,000	6.2
Total	68,251,000	100.0%

---

[3] U.S. Bureau of the Census, U.S. Department of Commerce, Current Population Reports, Consumer Income Series No. P-60, No. 89, Washington, U.S. Government Printing Office, July, 1973.

Appendix C

TABLE 2. Measures of Business Organization and Efficiency[2]
National Farm and Power Equipment Dealers Association-1973

Factors	Average	High Profit	Low Profit
Net operating profit or loss	$35,094	$60,240	-$6,023
Current ratio	1.56:1	1.92:1	1.32:1
Ownership equity	29.9%	40.0%	17.0%
Receivables turnover	12.58	17.21	11.10
Net working capital turnover	5.91	4.74	6.83
Inventory to net working capital	2.03:1	1.54:1	3.24:1
Turnover of total assets	1.87	2.0	1.33
Return on total assets	4.47%	15.46%	-1.14%
Return on net worth	25.37%	38.36%	-6.55%

---

[2] National Farm and Power Equipment Dealers Association, Cost of Doing Business Study for 1972: Financial and Operating Profiles of Farm and Industrial Equipment Dealers, St. Louis, 1973.

Appendix D

Formulas For Ratios

Wilbert R. Fischer

1. The amount of working capital
   Working capital = current assets - current liabilities

2. The number of dollars of current assets to take care of one dollar of current debt
   Current ratio = $\frac{\text{current assets}}{\text{current liabilities}}$

3. The percentage of the business owned by creditors
   Total debt to total assets = $\frac{\text{total liabilities}}{\text{total assets}}$

4. The percentage of the business owned by the owner(s)
   Net worth to total assets = $\frac{\text{total capital}}{\text{total assets}}$

5. Number of dollars contributed by the owner for every one dollar contributed by the creditors
   Net worth to total debt = $\frac{\text{total capital}}{\text{total liabilities}}$

6. The number of times the inventory is purchased and sold during the period
   Merchandise turnover = $\frac{\text{cost of goods sold}}{\text{average inventory (cost)}}$
   Average inventory = $\frac{\text{beginning + ending + monthly inventories}}{13}$

7. The average number of days it takes to dispose of the inventory
   Day's sales in inventory = $\frac{365}{\text{merchandise turnover}}$

8. The number of times the average receivables are collected during the year
   Accounts receivable turnover = $\frac{\text{annual credit sales}}{\text{average accounts receivable}}$

9. The average number of days sales are uncollected
   Average collection period = $\frac{365}{\text{accounts receivable turnover}}$

10. The number of times average accounts payable paid during the year
    Accounts payable turnover = $\frac{\text{annual credit purchases of merchandise}}{\text{average (trade) accounts payable}}$

11. The average number of days purchases are unpaid
    Average payment period = $\frac{365}{\text{accounts payable turnover}}$

12. Expenses per dollar sales
    Selling expenses to sales = $\frac{\text{selling expenses}}{\text{sales}}$

13. Administrative expenses to sales = $\frac{\text{administrative expenses}}{\text{sales}}$

14. The amount or percentage of sales dollar taken for operating expenses
Operating expenses to sales = $\frac{\text{total operating expenses}}{\text{sales}}$

15. The amount or percentage of gross profit per dollar of sales (must be big enough to take care of operating expenses and leave a profit)
Gross profit to sales = $\frac{\text{gross profit}}{\text{sales}}$

16. Amount or percentage of net income per dollar of sales
Net income to sales = $\frac{\text{net income}}{\text{sales}}$

17. Amount or percentage of net income per dollar of investment
Net income to net worth = $\frac{\text{net income}}{\text{total capital}}$

18. Amount or percentage of n[illegible] per dollar of investment in assets
Net profit to total asse[illegible]et income
[illegible]tal assets

19. Amount earned per share of stock
Earnings per share = $\frac{\text{net income (after taxes)}}{\text{number of shares issued and outstanding}}$

20. Number of times market price is for earnings for the year
Price-earnings ratio = $\frac{\text{earnings per share}}{\text{current market price per share}}$

21. Asset test or quick ratio = $\frac{\text{cash + receivables + marketable securities}}{\text{current liabilities}}$

22. When no long-term debt:
Times dividends earned = $\frac{\text{net income (after taxes)}}{\text{dividend requirements}}$

23. When long-term debt:
Times dividends earned = $\frac{\text{earnings (before taxes and before interest)}}{\text{interest charges + dividends on preferred stock}}$

24. Times interest earned = $\frac{\text{earnings (before taxes and before interest)}}{\text{interest charges}}$

25. Current asset turnover = $\frac{\text{cost of goods sold + oper. exp. + inc tax - depr}}{\text{current assets}}$

26. Rate of return per assets turnover = $\frac{\text{rate of return on assets}}{\text{current asset turnover}}$

27. Rate of return (after taxes) on equity of stockholders of common stock = $\frac{\text{Net income after taxes (less) preferred dividends}}{\text{Average total stockholder's equity (less) liquidating value of preferred equity}}$

28. Earnings per share of common stock = $$\frac{\text{net income after taxes (less) preferred dividends}}{\text{number of common shares outstanding}}$$

29. Book value per share of common stock = $$\frac{\text{total stockholder's equity (less) liquidating value of preferred stock equity}}{\text{number of common shares outstanding}}$$

Appendix E

Ratios and Other Measurements for Your Company and the Industry

Analysis	Ratios and Other Measurements	Last Yr.	This Yr.	Industry
	Total assets			
	Total capital			
1. Are we growing?	Total sales			
	Net income			
	Working capital			
2. How is our liquidity?	Current ratio			
	Statement of application of funds			
	Total debt to total assets			
3. How is our equity?	Net worth to total assets			
	Net worth to total debt			
	Merchandise turnover			
	Day's sales in inventory			
4. How is our activity?	Accounts receivable turnover			
	Average collection period			
	Accounts payable turnover			
	Selling expenses to net sales			
5. How are our operating expenses?	Administrative expenses to net sales			
	Operating expenses to net sales			
	Gross profit to net sales (margin)			
	Net income to net sales			
6. How are our earnings?	Net income to net worth			
	Net profit to total assets			
	Earnings per share			

As we make this analysis, we should note weaknesses that need correction and then the actions we should take to remedy these weaknesses.

Year I--Unit 3

MEASURES OF SMALL BUSINESS FAMILY PROGRESS AND USES OF SMALL BUSINESS AND HOME RECORDS

Part I. Student Objectives

A. Given "The Home and Family Self-Appraisal Checklist", the student will be able to evaluate his/her present status and goals under the six general headings on the checklist.

B. Given a "Net Worth Worksheet" and a "Sample Business Net Worth Statement", the student will be able to evaluate and identify measures of business and family progress as identified by the instructor.

C. Given a "Small Business Recordkeeping System" and a list of the eight kinds of basic records, the student will be able to identify how these records are utilized for business management.

Part II. Transition of Units

The previous unit demonstrated the wide variance in earnings in the United States among businesses and among families. It also initiated a discussion of ratios and measurements.

This unit ties the home and family status and goals to those of the business. The basic areas of recordkeeping are also introduced in this unit.

The following unit deals with the importance of inventories, and how to take and record the initial inventory.

Part III. The Lesson

Attention Focuser

Assemble a neatly kept journal and ledger, a simple notebook-type business record, a shoebox with sales receipts in it, and several brown paper bags full of paper and stapled shut with the names of different months written on each bag. Display these four examples of record systems and ask the class members which system(s) they would prefer to use in evaluating their business progress. Ask class members for reasons why the shoebox and brown bag methods are inadequate.

KEY QUESTION 1. How can a family make an appraisal of its present status and goals?

Suggested Teaching Strategy

Pass out a copy of "The Home and Family Self-Appraisal Checklist" from the appendix. Begin class with a brief discussion of the six goal areas on the checklist. Allow about thirty minutes for the *small business family to discuss together the questions raised in the checklist and to check "yes" or "no" responses. Select the most significant questions in each section for special discussion. In addition, discuss any further questions that may be raised by the families.*

KEY QUESTION 2. What are the basic components of a small business record system?

JOURNAL	Book of original entry. A financial diary.
LEDGER	Book of account, used to classify the journal entries.
BALANCE SHEET	Financial condition of the business at a certain point of time. Shows assets, liabilities, and owner's equity of a business at a specified date. Like a snapshot. Tells you where you are.
INCOME STATEMENT	Also called Profit and Loss Statement or Operating Statement. Shows the net income or net loss for a certain period of time. Shows activity over a certain period of time. Compares to a moving picture. Tells you how you got where you are.
GROSS MARGIN	Difference between sales and cost of goods sold. Also called gross profit.

Suggested Teaching Strategy

Briefly discuss and illustrate the basic components of a record system to the class. This will set the stage for identifying where and why different kinds of records are kept.

It may be appropriate to relate the discussion to the previous meetings on family and business goals. List some of the responses on the board that are highly related to the earning level of the small business. Discuss how these goals will be met if present business earnings are inadequate. Should there be changes in the business to increase earnings? Should goals be changed to conform to business earnings? Or does the business proceed as it is with the hope that "our ship might come in"?

KEY QUESTION 3. What are some of the most significant measures of small business family progress?

Suggested Teaching Strategy

Pass out a copy of the "Net Worth Worksheet" to each class member. Have each family complete the "Net Worth Worksheet". Point out that in many cases the class members may not be able to list accurate values for all items on the worksheet. However, they should be encouraged *to do the best job they can and where necessary simply "guesstimate" as accurately as possible. Allow the class about 20 minutes to complete the worksheet. When completed, ask them to divide gain in net worth due to business by the number of years in business to determine the average net worth gain per year. Most of the families will be unable to do this because they have not yet taken inventories and determined their present net worth.*

This is a good way to illustrate what can be learned after this record is begun. Emphasize that an annual growth in net worth is the best single measure of financial progress.

Use the "Sample Business Net Worth Statement" from the appendix to illustrate the different degrees of progress shown by 1972 records of the high and low earning groups. Point out that each of these groups could represent an individual family and through discussion bring out the significance of keeping personal spending within the limits of earnings.

Family living expenses have the first claim on small business income. Is there enough left for payment of debts? Through discussion bring out that the comfort of the home, recreation, educational progress of the family and hours worked are also measures of family progress that may be evaluated in a more subjective manner.

KEY QUESTION 4. What do complete small business and home records include?

The kinds of records to keep are:

1. Business receipts and expenses
2. Inventories of merchandise
3. Machinery, equipment and buildings inventory and depreciation
4. Accounts receivable
5. Accounts payable
6. Employee records
7. Non-business assets and total liabilities
8. Household and personal records

Suggested Teaching Strategy

Begin class by introducing the Merchants Bookkeeping and Tax Record or another small business recordkeeping system to the class members. Discuss each of the areas listed above illustrating that the system has been adopted because it enables easy and systematic recording of each of these essential parts of a complete record.

In the class situation where some class members may be using other types of recordkeeping systems, it will be necessary to point out that this is an example of a system that is reasonably complete and relatively easy to keep. Point out that although it is a good system, it lacks the sophistication that is necessary for some business *operations. Emphasize that the eight kinds of records to keep listed above are basic sections of any small business recordkeeping system and that it is imperative that each of these sections be understood and utilized for business management to be meaningful and successful.*

KEY QUESTION 5. Of what value are complete business and home records?

The value of records are:

1. To furnish information necessary for income taxes
2. To determine business earnings
3. To observe financial progress
4. To find which departments are most and which are least profitable
5. To determine weaknesses and strengths in the business as a whole and in particular departments
6. To furnish information for evaluation of personal spending
7. To preserve information about the business for future reference
8. To supply necessary information for use when obtaining credit
9. To supply inventory turnover information for future planning
10. To provide information needed for budgeting
11. To provide information needed for business analysis

Suggested Teaching Strategy

Ask the question, "What do you do with your records?" Many will have used records for tax purposes only. Others may have made limited use of records for other purposes. The ease of determining net business income from the account book totals for tax purposes should be pointed out. The other values of records listed under subject matter should be discussed briefly to show the association between needed record information in the preceding lesson unit and the use that will be made of it. Records which will not be used are a waste of time to keep. However, records which are not kept, cannot be used. In order for families to be motivated to keep good records, they must understand how the records will be used and how much they will contribute to the success of their business.

Part IV. Summary

A. It is important to appraise the business and home situation. Records provide a means to make this appraisal.

B. Growth of the business and growth of the individual can be measured by complete business and home records. Annual growth in net worth is the best single measure of financial progress.

C. Realistic family and business goals can be established through the evaluation of small business records.

D. The eight basic kinds of records a small business operator should keep must be understood and utilized for business management to be meaningful and successful.

Part V. At-The-Business Instruction

Review the sample analysis report with the family. Illustrate how expense projections, cost allocations and profit estimates discussed on the two previous visits can be verified by accounts. Encourage them to make notes on their account book on these projections and estimates.

Review any questions they have about the accounting system to be used. Provide guidance as needed with the recordkeeping. The instructor should not make entries in the account book.

Part VI. Resources

Overhead Projector
Chalkboard, Chalk and Eraser
Small Business Recordkeeping System
SBA Transparencies 41, 48, 69
Supply of Lined Paper and Pencils
Handouts of All Items in the Appendix

Part VII. References

1. Bank of America, "Avoiding Management Pitfalls," Small Business Reporter, Vol. 11, No. 5, San Francisco, 1973.

2. The Ideal System Company, Bookkeeping and Tax Record for Merchants, Berkeley, 1972.

3. Small Business Administration, The Why and What of Bookkeeping, Administrative Management Course Program, Topic 4, Washington, D.C., U.S. Government Printing Office, 1965.

Part VIII. Appendices

A. Home and Family Self-Appraisal CHecklist

B. Net Worth Worksheet

C. Sample Balance Sheet

1.30

Appendix A

HOME AND FAMILY SELF-APPRAISAL CHECKLIST

Name______________________________ Address______________________________ Date__________

Although the goals of each family differ in many respects from those of other families, the six types of long-term goals listed below are of interest to many. Use this checklist to help clarify your goals. "No" may indicate items you wish to raise questions about, discuss possible changes, or ask for information about.

	Yes	No
1. A Financially Sound Small Business Which Provides Adequate Income		
Have you been getting ahead financially during the time you have been in business?	___	___
Do you consider your income adequate to meet business, home and family needs (retire debts, save for education, build equity)?	___	___
Do you know how much your living costs are?	___	___
Do you feel you spend about the right amount for each area of family living?	___	___
2. An Attractive, Comfortable, Efficient Home To Meet Family Needs		
Do all family members take pride in and enjoy their home?	___	___
Do all family members enjoy entertaining friends in their home?	___	___
Are sleeping space and furnishings adequate for needed rest?	___	___
Is equipment adequate for doing work easily, quickly and well?	___	___
Is the home easy to keep clean and uncluttered?	___	___
3. Family Members Who Are Developing and Living Happy, Useful Lives		
Is everyone given responsibilities which help him or her grow?	___	___
Are recreational and educational reading materials provided?	___	___
Are home and community providing cultural development?	___	___
Have you had a family vacation in the past two years?	___	___
Are all family members given experiences in handling money of their own?	___	___
4. Family Relationships Which Build Security and Happiness		
Are family plans, including business, discussed by all members?	___	___
Is there time in the family schedule for talking together and enjoying each other?	___	___
Does the family enjoy meals together each day?	___	___
5. Family Members Who Have Good Health		
Is everyone in the family in good health?	___	___
6. Financial Security--Now and For The Future		
Are living expenses kept within your spending plan?	___	___
Do you have a definite plan for paying debts?	___	___
Are risks of loss by fire, accident and storm decreased by insurance?	___	___
Do you have some type of emergency fund?	___	___
Are life insurance and social security adequate to cover indebtedness, death expense, and to provide a minimum income for dependents?	___	___
Have you considered financial plans for retirement?	___	___

Appendix B

Net Worth Worksheet

ASSETS			
Current Assets:			
Cash on hand		________	
Cash in bank		________	
Notes receivable		________	
Accounts receivable		________	
Inventory stock on hand		________	
Total		________	________
Fixed Assets:			
Land		________	
Buildings		________	
Equipment		________	
Furniture and furnishings		________	
Total		________	________
Other Assets:			
________________		________	
________________		________	
________________		________	
Total		________	________
TOTAL ASSETS			________
LIABILITIES			
Current Liabilities:			
Notes payable		________	
Accounts payable		________	
________________		________	
________________		________	
Total		________	________
Fixed Liabilities:			
Mortgages		________	
________________		________	
Total		________	________
TOTAL LIABILITIES			________
Net Worth (deduct total liabilities from total assets)	A		________
Estimated net worth when business was started under your management	B		________
Gain in net worth (A - B)	C		________
Gifts or inheritances	D		________
Net worth gain due to business (C - D)	E		________
Years in business	F		________
Average gain in net worth per year (E ÷ F)	G		________

1.32

Appendix C

(Name of Business)

BALANCE SHEET

December 31, 1972

1.	ASSETS			
2.	Current Assets:			
3.	Cash		$ 8,000	
4.	Accounts Receivable	$22,400		
5.	Less Allowance for Bad Debts	(1,000)		
			21,400	
6.	Inventory (valued at cost)		26,000	
	Total Current Assets			$55,400
7.	Fixed Assets:			
	Fixtures and Equipment	$13,000		
	Truck	3,200		
			$16,200	
8.	Less Accumulated Depreciation		(3,880)	
	Total Fixed Assets			12,320
9.	Total Assets			$67,720
10.	LIABILITIES AND CAPITAL			
11.	Current Liabilities:			
12.	Notes Payable (due within 1 year)	$ 3,500		
13.	Accounts Payable	15,300		
14.	Accrued Expenses	700		
	Total Current Liabilities		$19,500	
15.	Long Term Liabilities:			
16.	Notes Payable (due after 1 year)		2,400	
17.	Total Liabilities			$21,900
18.	Capital			
19.	Owner's Capital, January 1, 1972		$45,120	
20.	Profit for period	$17,930		
21.	Owner's withdrawal	(17,230)		
22.	Undistributed earnings		700	
	Total Capital, December 31, 1972			$45,820
23.	Total Liabilities and Capital			$67,720

Year I--Unit 4

INVENTORIES

Part I. Student Objectives

A. Given a sample small business record including receipts, expenses, and inventories, the student will be able to identify the importance of inventories in determining earnings.

B. Using a small business recordkeeping system as identified by the instructor, the student will be able to complete a beginning of the year balance sheet for the family business.

Part II. Transition of Units

The previous unit talked about home and family status and goals in relationship to those of the business. The unit also started a basic discussion of recordkeeping.

This unit deals with the importance of inventories to earnings and in management, and covers taking and recording the initial inventory.

The following unit will cover the office needs, the evaluation of a filing system for the business and home, a recordkeeping tasks schedule and basic recordkeeping principles.

Part III. Lesson

Attention Focuser

Fill a bottle or jar with beans and display it in front of the class. Ask each class member to guess the number of beans contained in the bottle. Have the students turn in their guesses on slips of paper and record the guesses on the chalkboard. (Do not identify the guesses with the students' names.) Then tell the class the correct number and use the illustration to point out the wide variance that can come from guessing on inventories compared to using a system for inventorying.

KEY QUESTION 1. Why are inventories an important part of small business records?

Suggested Teaching Strategy

Begin class by showing transparency of Appendix B, "Effect of Inventory Variation on Profit." Refer to the middle column, "Actual", to show the calculation of Net Operating Profit. Then use a colored marking pencil to underline the Ending Inventory line. Students will be able to see how profit then becomes understated or overstated. Discuss the effect of incorrect inventories on the following year's net operating profit.

Emphasize that in any small retailing business the basic functions are buying and selling merchandise at a profit. In some cases, the business may sell a large amount of labor and service with the merchandise. However, the majority of activities are carried on to facilitate the efficient performance of buying and selling to make a profit. Inventory practices in a business are a significant factor in profitability of the buying and selling operations.

The instructor will probably find that the majority of the class members have varying degrees of inventory problems. Even so, it is not intended that the subject of inventories be comprehensively treated at this time. The instructor will find it useful to review Unit 13 and the SBA Topic 21, Merchandise Control. SBA also has a management training film, "A Step in the Right Direction", that might be worthwhile to show at this time or in Unit 13.

Class members should be allowed a moderate amount of discussion at this time concerning inventory problems unique to their business. Problems of carrying old stock, merchandise inventories, and other problems may tend to loosen up the class.

A copy of "Merchandise and Inventory Control" should be prepared for each member of the class. The instructor may prepare the handout with the comments after each question or may put them on a separate sheet and treat the handout as a survey quiz. Some time should be spent discussing the handout after the class has had an opportunity to go over it.

KEY QUESTION 2. How do you begin the inventory?

"Materials management--the purchase of materials used and the control and maintenance of inventories--is one of the most important tasks in almost any small firm." (Krentzman, p. 111) Managing for Profits, from which this quote is taken, also points out that actual inventory control is exercised by observation, physical checks or by perpetual inventory records. The instructor should study Chapter 6 of this publication before teaching this portion of the unit.

Suggested Teaching Strategy

Have the families bring to class whatever inventory records they have of their business. Have them turn to the special section in the back of the record book on inventories. Review with the class the instructions on inventory on the yellow sheet found in the middle of this section.

Each family should complete the beginning of the year portion of the balance sheet found on the last page of the summary section of the record book. When the last line (net worth) on the balance sheet is reached, the inventories should be complete. Stress that an inventory, as of January 1st)or beginning of the business fiscal year), once correctly completed, will never change.

1. Page through the various sections on inventories and explain what is needed in each section.

2. Emphasize the importance of accuracy.

3. Discuss the physical count aspects of inventory.

4. Demonstrate methods for mathematically checking what the inventory should be (e.g. beginning inventory + purchases - sales - losses = ending inventory).

The depreciation portion should be explained. The importance of setting this schedule up in conformity with the past income tax reports should be stressed. Each family should use the previous year's income tax depreciation schedule as a guide. A physical check of all depreciable assets should also be stressed. The headings on the depreciation page in the record book should be changed to conform to depreciation practice. Starting with the large column on the left, the columns should be numbered one through eight and the following headings used:

1. Description of Property and Year of Purchase
2. Cost and Salvage Value
3. Amount Remaining for Depreciation
4. Seven Percent Investment Credit (Ten Percent in 1975 and 1976)
5. Life in Years
6. Annual Depreciation
7. Value of Property at Beginning of Year
8. Value of Property at End of Year

The value of this unit is to get all families started on January 1 inventories. These cannot be completed in class except by the more exceptional business operators. The very next at-the-business visit should be spent with the family in getting these inventories completed.

Since the small business management instructor is starting at least 12 families on small business accounts for the first time, he/she may wish to complete all except the depreciation schedule at this time. In most cases, this could be completed at a later date when time is available.

Unit 11, intended for August or September, deals with the depreciation of all capital assets in detail. It will probably be necessary to give only a brief description of how depreciation is handled to enable families to get started on entering their asset records on the depreciation schedule.

Part IV. Summary

A. The basic functions of most small businesses are buying and selling merchandise at a profit. Inventory rests between these two functions and is a significant factor in profitability.

B. Merchandise and inventory control must have a complete and accurate beginning.

C. The depreciation portion of inventories should conform with past income tax reports.

Part V. At-The-Business Instruction

Assist the family in completing the beginning inventory in the account book. Since this is a big job which requires prior planning on the part of the business operator, this should be a scheduled visit for this specific purpose. Check carefully for accuracy and completeness. Review the net worth statement with them and calculate some of the common credit ratios.

Part VI. Resources

Overhead Projector
Chalkboard
Handouts: Appendix A, "Merchandise and Inventory Control", and Appendix B, "Effect of Inventory Variation on Profit"
Transparency of Appendix B
SBA Transparencies 5, 103, 104
Supply of Lined Paper and Pencils

Part VII. References

A. References Cited

Small Business Administration, Managing for Profits, Harvey C. Krentzman, Washington, U.S. Government Printing Office, 1968.

B. Other References

1. The Ideal System Company, Bookkeeping and Tax Record for Merchants, Berkeley, 1972.

2. Internal Revenue Service, U.S. Department of the Treasury, Employer's Tax Guide, Circular E, Publication 15, Washington, U.S. Government Printing Office, 1973.

3. National Farm and Power Equipment Dealers Association, Cost of Doing Business Study for 1972: Financial and Operating Profiles of Farm and Industrial Equipment Dealers, St. Louis, 1973.

4. Small Business Administration, Management Audit for Small Manufacturers, Small Business Management Series No. 29, Washington, U.S. Government Printing Office, 1963.

5. Small Business Administration, Management Audit for Small Retailers, Small Business Management Series No. 31, Washington, U.S. Government Printing Office, 1964.

6. Small Business Administration, Merchandise Control, Instructor's Manual, Topic 21, Washington, U.S. Government Printing Office, 1971.

7. Small Business Administration, The Why and What of Bookkeeping, Administrative Management Course Program, Topic 4, Washington, U.S. Government Printing Office, 1965.

Part VIII. Appendices

A. Merchandise and Inventory Control

B. Effect of Inventory Variation on Profit

Appendix A

Merchandise and Inventory Control*

Yes No

1. Have you organized your store into selling departments?

Comment: Organizing your store by departments enables you to determine not only the profitability of groups of merchandise but also the abilities of your employees. Department records should include gross sales, customer returns and allowances, semiannual physical inventories, purchases at cost and retail, markdowns, direct department expenses, cash discounts, and workroom costs. With these data, you can construct department operating statements to enable you to determine controllable profit levels. Your department records are also necessary for proper supervision of your employees.

2. Do you keep sales, inventory, and purchase records by types of merchandise within your departments?

Comment: Analysis of dollar sales, inventories, purchases, and markups and markdowns of merchandise by type is indispensable if you want to balance your inventories and purchases to sales and if you want an adequate markup. Sales and purchases by types of merchandise can be reported as they occur, or sales can be derived periodically by subtracting the current physical retail inventory for each type of merchandise from the accumulation of previous physical inventory and purchases at retail.

3. Within each merchandise type, do you develop a model stock plan for key points in the season in order to maintain a balance between breadth and depth of the assortments?

Comment: Your merchandise records will have no value unless you act upon them. You can use such records to develop a unit plan which will show the number of different varieties you should carry in stock and the number of each variety you should stock to avoid running out. A model stock should be broken down by customer preference factors such as price lines, types, materials, colors, and sizes. Even if you do not keep unit control records, you can visually inspect your stock to see if assortments are well thought out or have been developed haphazardly.

4. For staple and reorder items, do you prepare a checklist (never-out list) which you frequently check against the actual assortment on hand?

Comment: To be out of staples should be regarded as a crime. Such merchandise is essential if you are to obtain a steady flow of customers. You can set a maximum to which the stock should be built up by determining the estimated rate of sale for each item, its delivery period, the planned frequency of reorder, and the amount reserved for chance increases in sales. For example, if you plan to provide 8 weeks' supply of an item and have sales of 6 a week, the maximum quantity you will want to have on hand and on order is 48 units. If at reorder date 18 of the item are on hand, 30 should be ordered.

5. Do you have a unit control system for nonstaple lines that shows best sellers and slow sellers daily and weekly?

---

*Items 1-11 taken from: S.B.A., Management Audit for Small Retailers, SBA Management Series No. 31, Washington, U.S. Government Printing Office, 1964.

Yes No

Comment: The control system may be a daily analysis of sales by unit, by style number, size, and color; or it may involve keeping a record of the transfer of goods from reserve to forward stock.

6. Do you make certain that best sellers are reordered promptly and in sufficient volume and that slow sellers are processed swiftly for clearance?

Comment: Unit control records are useless unless they are used promptly in both buying and selling activity.

7. For goods having a short selling season, such as ski equipment or straw hats, do you predetermine the following dates: (1) when first orders are to be placed, (2) when retail stocks are to be complete, (3) extent of peak selling period, (4) start of clearance, (5) final cleanup?

Comment: Without such key dates in mind, the introduction of short-lived seasonal goods is likely to lead to loss.

8. When you go to market or place orders at home for seasonal merchandise, do you use a written buying plan to guide your selection?

Comment: A buying plan -- the outgrowth of a sales and model stock plan -- is developed by such factors as price line, type, and material. It includes a scale to help determine the selection of sizes and colors. It does not normally include specific style numbers (which are determined at the time and point of purchase), but it may include the number of different styles you decide to carry, and the number of colors and number of sizes.

9. Do you use a reliable system for determining and controlling slow-selling stock?

Comment: Such a system might involve a monthly check of all items or it might be based on a perpetual inventory record that would reveal which items are not moving. Your control records should show the date the merchandise was received; and when you take inventory, you should note the value of goods in each age bracket -- that is, less than 6 (or 3) months old, 6 months to 1 year old, and more than 1 year old.

10. Do you keep separate, in records and in stock, those goods which do not belong to the store, such as a customer's own goods and goods on consignment?

Comment: Legally, you are a consignee for the goods of others and have a special responsibility. Keeping separate records for consignment goods helps avoid the danger of overstocking.

11. Do you have adequate safeguards against theft, breakage, soiling and fading?

Comment: Your business is to sell all the merchandise you buy. When merchandise is stolen or broken, fades, or becomes soiled, you not only lose your anticipated profit but also the money you paid for the merchandise.

Retaining an outside protection service to keep watch over selling areas is also worth considering. Pilferage is becoming one of the greatest problems in retailing, particularly in self-service stores. You should strive to

Yes No

develop in your employees a sense of loyalty and responsibility that will keep them alert to any evidence of theft or careless handling of merchandise.

12. Are perpetual inventory records maintained with respect to the following classes of inventories: (a) raw materials and supplies? (b) work in process? (c) finished stock?

13. Are perpetual inventory records checked by physical inventories at least once each year?

14. Does a responsible employee approve adjustments made to perpetual records based upon physical inventories?

Comment: Even the smallest two or three-man operation will tend to find itself in difficulty without adequate, written, well-organized, readily available records of the various categories of its inventory. One outstanding characteristic of a well-managed firm appears to be the detail with which it keeps such inventory records and control. The accuracy of your buying decisions -- quantity and timing -- are dependent on inventory control.

15. Are all purchases made on purchase orders?

16. Are vouchers prepared for all purchase and expense items?

17. Are vouchers for purchases and expenses examined by you or a responsible employee to ascertain completeness of attachments and various required approvals?

Comment: The purchasing function in a well-managed company requires dollar as well as unit control. Such control prevents unbalanced inventory, overpayments, failure to take advantage of discounts, and unauthorized purchases.

18. Do you or a responsibie employee receive periodic reports as to: (a) slow-moving items? (b) obsolete items? (c) overstocks?

Comment: Among other advantages, the control implied in this question enables you to tailor your inventories to sales, for example.

19. Is merchandise on hand, which is not your property (customer's merchandise, consignments, and the like), physically segregated and under accounting control?

Comment: The goodwill of your suppliers and customers, in addition to cash value, is involved when you are handling property which belongs to them. Therefore, control of such merchandise is doubly important. Perhaps you can afford to make adjustments for lack of control of your own merchandise, but it is extremely difficult to repair the tangible and intangible damage incurred in mishandling the property of others.

---

[4] Items 12 - 19 from: S. B. A., Management Audit for Small Manufacturers, Small Business Management Series 29, Washington, U.S. Government Printing Office, 1963.

Appendix B

EFFECT OF INVENTORY VARIATION ON PROFIT

	UNDERSTATED		ACTUAL		OVERSTATED	
TOTAL SALES	153,200	100%	153,200	100%	153,200	100%
BEG. INV.	29,610	19	29,610	19	29,610	19
PURCHASES	85,311	56	85,311	56	85,311	56
GOODS AVAIL.	114,921	75	114,921	75	114,921	75
END. INV.	17,525	11	22,525	15	32,525	21
CGS	97,396	64	92,396	60	82,396	54
GROSS PROFIT	55,804	36	60,804	40	70,804	46
TOTAL EXPENSES	29,344	19	29,344	19	29,344	19
NET OPERATING PROFIT	26,460	17%	31,460	21%	41,460	27%

INVENTORY UNDERSTATED BY $5,000. PROFIT UNDERSTATED BY $5,000

INVENTORY OVERSTATED BY $10,000 PROFIT OVERSTATED BY $10,000.

Year I--Unit 5

KEEPING SMALL BUSINESS ACCOUNTS CURRENT

Part I. Student Objectives

A. Given a standardized chart of accounts for a general accounting system and an explanation of its use, the student will be able to select account numbers specific to the business operation which will provide the basis for a complete business analysis.

B. Utilizing a business record book and other recordkeeping aids as identified by the instructor, the student will be able to evaluate, given a set of components or evaluation criteria, his/her present recordkeeping system.

C. Utilizing a business record book with a suggested format for entering receipts, expenses and other business transactions, the student will be able to establish a systematic approach to the recordkeeping task.

D. Given alternative filing systems and examples of different types of small businesses, the student will be able to select an appropriate system for each type of business.

E. Given various examples of office arrangements, office equipment and other office materials, the student will be able to choose the office essentials of a selected business.

Part II. Transition of Units

The importance of inventories to earnings and in management was discussed in the previous unit. It also covered the taking and recording of the initial inventory.

This unit deals with the recordkeeping system in general, a standardized chart of accounts, the establishment of a systematic approach to recordkeeping, the filing system and the office needs of a business.

The following unit concentrates on the business balance sheet and the monthly summary of business. This unit encourages a monthly evaluation of business activity.

Part III. Lesson

Attention Focuser

Project a transparency of Appendix B and ask students if they can recall when their records looked like the illustration on the transparency. Try to hold a brief discussion on the experiences class members have had with early record systems.

KEY QUESTION 1. What is a "Chart of Accounts"?

100	Current Assets
200	Current Liabilities
300	Owner's Equity
400	Sales & Revenues
500	Purchases, Cost of Goods & Services Sold
600	Expenses
700	Sales & Purchases of Assets
800	Personal Expenses
001	Other Categories

Suggested Teaching Strategy

Distribute a copy of Appendix A, Small Business Management, Standardized Chart of Accounts, to each student. Point out to the class that this chart of accounts can be used in a single or double entry bookkeeping system. The business operator need only use those numbers necessary to collect data for tax and analysis purposes. After explaining the chart of accounts to the class, go on to the following key questions, but keep the chart available for constant referral.

KEY QUESTION 2. What does a small business record book contain?

A. Discussion on recordkeeping systems

B. Study and preparation of the account book

1. Index
2. Table of contents
3. Instructions for individual pages

C. Using a safety spindle

D. Using a receipt folder or index file

Suggested Teaching Strategy

It is important that the instructor recognize that it may be impossible to have one recordkeeping system represented in the class. Emphasize to the class that one simple recordkeeping system will be presented. Point out that there are similarities in all recordkeeping systems and that those already using a more sophisticated one should scrutinize the system presented and compare it with their own. They should keep in mind that it is a minimal system and their system should do as much or more. Businesses with adequately sophisticated recordkeeping systems will not be expected to change.

However, the instructor should bear in mind that the more types of systems utilized by class members, the more difficult his/her task will be at the end of the year when the records must be closed out and data transferred to analysis sheets.

The remainder of this unit should not be viewed as a "how to do it" lesson in bookkeeping but rather as a discussion and evaluation of a basic system.

For some class members this discussion will provide the basis for building an adequate recordkeeping system in the future. For the class members who already have reasonable systems of recordkeeping, this discussion affords an opportunity to critically review that system. The instructor should make sure the class members understand this and that none of them has the feeling or attitude that "this does not apply to me."

At this point use some transparencies of the analysis summary to demonstrate what information will come out of an adequate record, thus re-emphasizing the need for detailed separation of receipts and expenses. Include at least one transparency of Table 9, Department Analysis, and spend about ten minutes on this portion of the analysis.

Make sure that each class member has a copy of the record book, Merchants Bookkeeping and Tax Record. They should be reminded that this is an example of a simple, basic recordkeeping system adequate for income tax, employee records, etc., and containing the data necessary for analysis of the business.

Discuss the layout and instruction pages of each section of the account book. Various systems may be used to aid the recordkeeper in finding and turning to pages quickly. A system of plastic tabs in an assortment of colors (available through office supply houses) may be used on the first page of each section. Even though this may seem like a menial task, it can be done in class to create interest in the account book and it will save much time later on in finding pages in the account book. This may prevent discouragement later on.

Demonstrate the use of a safety spindle and an expanding folder to illustrate how income and expense slips may be kept in order until they are entered in the account book. Demonstrate how as items have been entered in the record book, the receipts can be filed in the expanding folder.

If a definite system is not used, there will very likely be some confusion during the year as to whether or not certain items have been entered. Point out that all entries should be made with a pencil with sufficient care that each number is clearly legible. Neatness will help to prevent errors.

KEY QUESTION 3. What are some special things to watch out for in making entries?

A. Sales Section

Study the sample page. Note the suggestions for handling a day's sales and cash receipts. Discuss each of the four squares of specific instructions for monthly summary and recording separate departments in the business.

B. Purchases

Study the sample page. Note the method for handling returned merchandise, the different methods for handling daily entries, monthly summary transfers, and the use of blank columns for different departments in the business.

C. Expenses

Sample page illustrations are complete and adequate. Review the specific instructions on this page with the class. Again, stress timely and accurate entries. Relate back to spindle and file system.

D. Summary Section

This section will not be completed at this time, but will be treated in a separate class session (Unit 6).

E. Special

1. Individual Payroll Record

This section will generate many questions regarding payroll, various withholdings and other payroll account problems. The instructor will need to guard against getting too involved with rules and regulations not relevant to the recordkeeping at this time.

It should be emphasized that this is an area of considerable interest and will be treated in detail at a later session. The employee payroll record is extremely important. It should be emphasized that since the welfare of others is involved, it will receive special attention.

Discuss the specific instructions on the sample page.

2. Inventory -- completed at an earlier class session.

3. Proprietor's Account -- read instructions on the yellow page.

4. Loan and Note Record

All loans and notes should be entered as of January 1. Instructions should be given on how to record payments on debt and money borrowed. Point out that with the recording of the end of year (December 31) balance on loans and notes, the loan and note record should balance for the year.

5. Household and Personal Expense

This section consists of the last pages in the record book. In the event this section is not headed, the categories below should be entered at the top of the columns in the order given.

a. Possible Tax Deductions

If approved as a deductible by the Bureau of Internal Revenue and the state income tax department, contributions such as those to religious, educational, scientific, literary or charitable (Red Cross, Community Chest) organizations, public projects and memorials and health expenses such as dentist, doctor, oculist, nurse, hospital, drugs, medical supplies, eye glasses, dentures, hearing aids, health, medical and hospital insurance.

b. Food and Meals Bought

Meat, poultry and fish, cereals, dairy products, fruits and vegetables, alcoholic beverages, garden seeds and meals purchased away from home.

c. Operating Expense, Supplies, Furnishings and Equipment

Furniture, rugs, stove, electrical equipment, drapes and curtains, lawn mower, garden cultivator, laundry and sewing supplies, fuel, matches, soap, stationery, stamps, storage, expressage, plants and flowers for the house, and household help.

d. Clothing and Clothing Materials

Clothing for members of the family, gifts of clothing to members of the family, special sewing supplies, dry cleaning, laundry expenses, tailoring, dressmaking materials, jewelry.

e. Personal Care and Spending

Hair cuts and hair waves, cosmetics, toilet articles, cigarettes and tobacco, and other items with personal spending money.

f. Education

School supplies, books, tuition and fees, transportation to and from school.

g. Recreation and Gifts

Newspapers, magazines, club dues, concerts, lectures, movies, athletic equipment and events, pets, camera and supplies, radio, television, music and musical instruments, piano, vacations (including transportation and meals), baby sitting, and gifts outside the family, weddings, funerals, anniversaries.

Point out that personal share of truck and auto expense and personal share of utilities can be noted in the appropriate section of the record book. Emphasize the importance of the household and personal expense record.

Suggested Teaching Strategy

Discuss the items listed under the key question and have each family follow along in the pages of their own account book as this is done. Encourage penciled notes or checks as reminders of important items. This class is primarily to introduce these items to new recordkeepers. Going over this material is only the beginning. Follow-up on at-the-business visits is imperative. Frequent inquiries such as "how are the accounts coming?" will indicate to families that the instructor is interested in the records and is willing to assist when necessary.

At least twice during the year the account book should be carefully checked by the instructor. Notes regarding missing and incorrect items should be made on a separate piece of paper and returned to the family with the book to assist in eliminating the deficiencies. This procedure is many times more effective than simply mentioning them. The account book itself is the property of the small business family. The instructor should be very cautious about writing anything in the account book itself. The account book is a permanent record for the family and should not be defaced even during the teaching process.

KEY QUESTION 4. What are the essentials for a complete home and business office and filing system?

A. Purpose of the office

   1. Provides a place to keep valuable papers and materials from getting lost.

   2. Provides a quiet place to think and work.

   3. Makes paper work easier and faster.

   4. May help prevent legal difficulties and loss of money.

B. Locating and equipping the small business office

C. Developing a filing system

   1. Purpose of a filing system

   2. Assembling a filing system

      a. Deciding on the scope of the system

      b. Adopting systems to fit your needs

      c. Setting up dividers and folders

   3. Putting your filing system into use

D. A suggested system for small business and home filing

Suggested Teaching Strategy

Many small business operators are not good organizers of receipts, bills, records, reference materials, and the paper work needed to carry out their business. They can, however, be helped to improve themselves in this area.

Because the small business is becoming more and more complex each year, it is becoming more important for the small business family to have a place where they can carry out the day-to-day transactions as well as important decisions about their business. Sound decisions do not just happen. They are the result of careful study, research, and planning on the part of the operator. A most valuable tool to aid the operator in decision-making is a place where he/she can work and think, undisturbed by noise and interruptions.

To illustrate to the families how they might improve their filing system and business or home office, the following activities are suggested.

1. *Develop slides and overlays that will show several different small business office arrangements.*
2. *Show slides and overlays of various kinds of equipment that can be used in the office, such as desks, chairs, lighting, file cabinets, etc.*
3. *Show samples of the various components of a filing system such as file folders, dividers, file tabs, etc. Also show prices of each.*
4. *Develop a sample small business filing system with index and put in a box to show families what it looks like and how it works.*

Part IV. Summary

A. A good recordkeeping system combined with good recordkeeping practices will ensure accurate records.

B. Accurate records are essential for a small business analysis.

C. The small business and home office and filing system is the base and basis for study and planning in the decision-making process on the part of the operator.

Part V. At-The-Business Instruction

Review the accounting procedures with the family recordkeepers. Check the correctness of the initial account entries. Show how the accounts will be used to compile income tax information the next year. Review with each business enrollee their present record control procedures, filing system, office space, office layout and office equipment. Discuss changes that would be beneficial in each of these areas. Make sure that each business has a copy of Extension Bulletin 307.

Part VI. Resources

Overhead Projector
Chalkboard
Agricultural Extension Service, University of Minnesota. Your Home Business Center. Extension Bulletin 307. St. Paul, October, 1965.
The Ideal System Company. Bookkeeping and Tax Record For Merchants. Berkeley, 1972.
Handout of Appendix A
Expanding File
Accounts Receivable Card For Posting
Petty Cash Book
Sales Book with Carbon Copy
Safety Spindle
Filing Cabinet
Lined Paper and Pencils

Part VII. References

1. Agricultural Extension Service, University of Minnesota, Your Home Business Center, Extension Bulletin 307, St. Paul, October, 1965.

2. The Ideal System Company, Bookkeeping and Tax Record For Merchants, Berkeley, 1972.

Part VIII. Appendices

A. Small Business Management Standardized Chart of Accounts

B. Attention Focuser: "How Do Your Records Look?"

Appendix A

SMALL BUSINESS MANAGEMENT STANDARDIZED CHART OF ACCOUNTS

100 - 199

100 CURRENT ASSETS
101 Cash - Bank Account
102 Cash - Petty Cash
108 Accounts Receivable Control (Total)
109 A/R 0-30 Days
110 A/R 30-60 Days
111 A/R 60-90 Days
112 A/R > 90 Days
114 Allowance for Bad Debts
115 Notes Receivable
116 - 119 Open Accounts

120 MERCHANDISE INVENTORY
121 - 139 Departmental Breakdown of Merchandise
140 Secondary Departments (i.e. used merchandise, etc.)
141 - 159 Secondary Departmental Breakdowns

160 OTHER CURRENT ASSETS
161 Prepaid Insurance
162 Prepaid Taxes
163 - 170 Open Accounts
179 Total Current Assets

180 FIXED ASSETS
181 Land
182 Buildings
183 Accumulated Depreciation - Buildings
184 Equipment & Fixtures
185 Accumulated Depreciation - Equipment & Fixtures
186 Vehicles
187 Accumulated Depreciation - Vehicles

190 TOTAL FIXED ASSETS

199 TOTAL ASSETS

200 - 299 LIABILITIES

200 CURRENT LIABILITIES
208 Accounts Payable Control (Total)
209 A/P 0-30 Days
210 A/P 30-60 Days
211 A/P 60-90 Days
212 A/P > 90 Days
216 Notes Payable - Bank
217 Notes Payable - Other
218 Interest Payable
219 Open Account

1.52

220 Employees Federal Withholding & FICA Payable
221 Employees State Withholding Tax Payable
222 Federal Unemployment Tax Payable
223 State Unemployment Tax Payable
224 State Sales Tax Payable
225 Property Tax Payable
226 - 249 Open Accounts

250 TOTAL CURRENT LIABILITIES

260 FIXED OR LONG-TERM LIABILITIES
261 Mortgage Payable
262 Intermediate Loans Payable
263 - 290 Open Accounts

295 TOTAL FIXED ASSETS

299 TOTAL LIABILITIES

300 - 399 OWNERS EQUITY

310 Capital Account - Business Operator
311 - 319 Open for Extra Capital Accounts
320 Withdrawals-Draw Account for Business Operator - Personal
321 Federal & State Estimated Taxes Paid (Separate From the Normal Draw Account-Personal)
322 - 349 Open Accounts
397 Net Profit

398 TOTAL EQUITY

399 TOTAL LIABILITIES PLUS EQUITY

400 - 499 SALES & REVENUES

420 SALES
421 - 439 Departmental Breakdown of Sales (i.e. 421.1, 421.2, 421.3)
440 Secondary Departments
441 - 459 Secondary Breakdown of Sales (i.e. 441.1, 441.2, 441.3)

460 Labor-Customer
461 Labor-Outside (Sublet)
462 Labor-Internal
463 Labor-Warranty

472 Parts-Internal
473 Parts-Warranty

475 Net Sales of Goods & Services

480 Interest Income
481 Rental Income
482 Royalties Income

490 Purchase Discounts
491 Volume Discounts
492 Other (Includes Capital Gains)
499 TOTAL INCOME

500 - 599 PURCHASES, COST OF GOODS & SERVICES SOLD

520 PURCHASES, COST OF GOODS & SERVICES SOLD
521 - 539 Departmental Breakdown (i.e. 521.1, 521.2, 521.3)
540 Secondary Departments
541 - 549 Secondary (i.e. 541.1, 541.2, 541.3)

550 Freight-in Costs
560 Cost of Goods Sold (Direct)
561 Cost-Sublet Labor
570 Cost-Labor Production

598 TOTAL COST OF GOODS SOLD

599 GROSS PROFIT

600 - 699 EXPENSES

605 Total Labor Costs - Unpaid Family Labor, Salaries & Wages, Payroll Taxes & Fringe Benefits
609 Paid Family Wages
610 Salaries & Wages
611 Payroll Taxes (FICA & Unemployment)
612 Advertising
613 Heat
614 Electricity
615 Water
616 Telephone
617 Insurance (Property, Liability, Etc.)
618 Interest Expense
619 Repair & Maintenance - Land
620 Repair & Maintenance - Buildings
621 Repair & Maintenance - Equipment & Fixtures
622 Repair & Maintenance - Vehicles
623 Gas, Oil & Grease
624 Legal & Accounting
625 Property Taxes
626 Charitable Contributions
627 Shop Expense
628 Office Expense
629 Entertainment & Promotion
630 Dues & Subscriptions
631 Licenses
632 Travel & Conventions
633 Policy Adjustment

1.54

634 Depreciation Expense - Control (Total)
635 Depreciation - Buildings
636 Depreciation - Equipment & Fixtures
637 Depreciation - Vehicles
638 Bad Debts Expense
639 Rent Expense
640 Cash Short/Long
641 Miscellaneous
642 Delivery Expense
643 Postage
644 Selling Expense
645 Employee Benefits
646 Trash or Garbage Removal
647 Breakage & Spoilage
648 Collection Expense
649 Bank Charges
650 Supplies
651 - 697 Open Accounts

698 TOTAL EXPENSES
699 NET OPERATING PROFIT OR LOSS

700 - 749 SALES OF ASSETS

710 Sales of Land
715 Cost of Land Sold
720 Sales of Buildings
725 Cost of Buildings Sold
730 Sales of Equipment & Fixtures
735 Cost of Equipment & Fixtures Sold
740 Sales of Vehicles
745 Cost of Vehicles Sold

749 TOTAL SALES OF ASSETS

750 - 799 PURCHASES OF ASSETS

760 Purchases of Land
770 Purchases of Buildings
780 Purchases of Equipment & Fixtures
790 Purchases of Vehicle

795 TOTAL PURCHASES OF ASSETS
798 TOTAL COST OF ASSETS SOLD
799 GAIN OR LOSS ON SALE OF ASSETS - NET BUSINESS PROFIT (TO BALANCE SHEET)

800 - 899 PERSONAL EXPENSES

813 Heat
814 Electricity
815 Water
816 Telephone
817 Insurance
818 Interest
819 Repairs & Maintenance - Land
820 Repairs & Maintenance - Buildings (Home)
821 Repairs & Maintenance - Equipment & Fixtures
822 Repairs & Maintenance - Vehicles

823	Gas, Oil & Grease
824	Legal & Accounting
825	Property Taxes
826	Contributions & Donations
830	Dues & Subscriptions
831	Licenses
832	Travel & Recreation
839	Rent
841	Miscellaneous
843	Postage
850	Supplies
860	Church
862	Medical Expenses
864	Food & Meals
866	Clothing
868	Education
870	Family Use of Goods & Services

321	Federal & State Estimated Tax Payments (Personal)

899	TOTAL PERSONAL EXPENSES

001 - 099 OTHER CATEGORIES

052	Number of Full-Time Workers Employed
054	Hours of Labor For Full-Time Workers
056	Number of Part-Time Workers Employed
058	Hours of Labor For Part-Time Workers
060	Hours of Unpaid Family Labor
062	Value of Unpaid Family Labor
064	Hours Worked By Operator
066	Hours Worked By Partners
068	Value of Partner's Labor
070	Total Money Borrowed - Business
074	Total Paid on Debts -Business (Principal Only)
076	Total Money Borrowed - Personal
078	Total Paid on Debts - Personal (Principal Only)

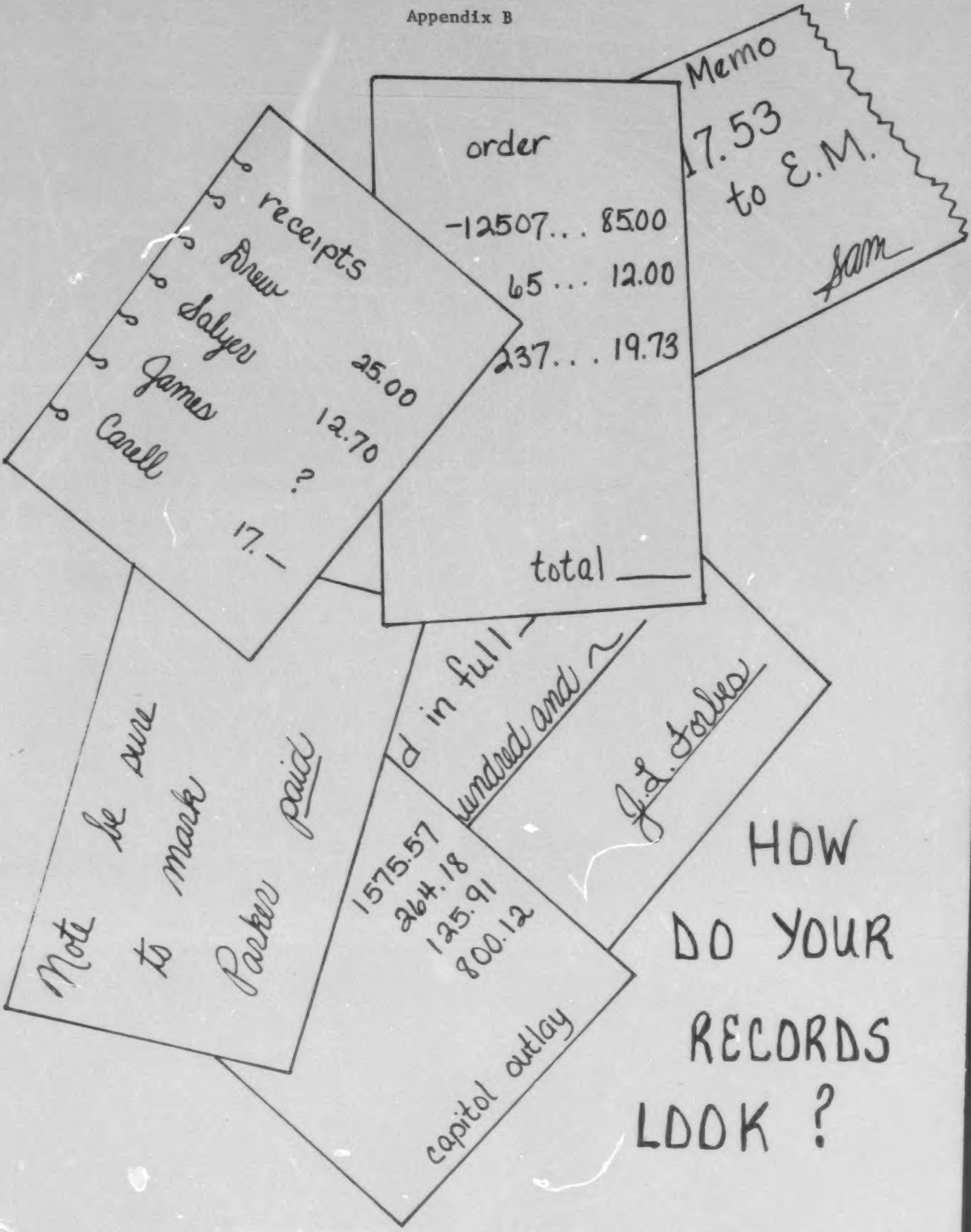
% ALLOCATION AMONG DEPARTMENTS
(If Actual Figures Unavailable)

080	Total Hours of Labor
082	Total Investment
084	Total Expenses

088	Total Non-Business Income (Personal)

090	Number of Persons Per Family
095	Adult Equivalents Per Family

Appendix B


Memo
17.53
to E.M.
Sam
order
-12507... 85.00
65... 12.00
237... 19.73
total
receipts
Drew
Salyer 25.00
James 12.70
Carell ?
17.–
d in full
undred and
J.L. Forbes
Mote be sure to mark Parker paid
1575.57
264.18
125.91
800.12
capitol outlay
HOW DO YOUR RECORDS LOOK ?

Year I--Unit 6

THE BALANCE SHEET AND THE MONTHLY SUMMARY

Part I. Student Objectives

A. After a class discussion of a sample balance sheet containing an average, high, and low profit business breakdown, the student will be able to assess the viability of several businesses using sample problems and the information on the balance sheet.

B. Given a monthly summary (profit and loss statement) and an opportunity for class discussion of monthly summaries, the student will write out a monthly summary of a particular business.

C. Utilizing an Operating Ratio's analysis statement or a Barometer of Small Business Yearbook and a completed monthly summary of the business, the student will be able to do a comparative analysis of income and expense items, and be able to recognize the value of a routine monthly evaluation of business activity.

Part II. Transition of Units

The previous unit talked about the recordkeeping system, the establishment of a systematic approach to recordkeeping, the filing system and finally covered the office needs of a business.

This unit concentrates on the business balance sheet and the monthly summary (profit and loss statement) of business. A routine monthly evaluation of business activity is shown and encouraged.

The following unit deals with cash flow, and cash flow projection. Utilization of this technique as a budgeting device is stressed.

Part III. Lesson

Attention Focuser

Ask each student to write down how much money he or she has in his or her pocket, without looking. Then have them count their money to see if it matches their figures. Relate this to the idea that we don't always know our own value or the value of our business. A business balance sheet will give us this information.

Now ask each student to write down where they spent cash from their pocket during the past week, and where they intend to spend the cash they now have in their pocket. Most people will have difficulty in remembering past expenses, or in really listing planned expenditures. Use this to point out the value of the monthly summary (profit and loss statement) for planning purposes.

KEY QUESTION 1. What can be learned from the balance sheet?

A. General Make-up of a balance sheet.

B. Comparison of total liabilities.

C. Comparison of net worth or owner's equity.

Suggested Teaching Strategy

1. Make a transparency of the balance sheet, Appendix A, as well as mimeographed copies of it for students. Discuss the balance sheet with the class. Compare net worth and total liabilities for the three levels of operation. Discuss the implications of the differences in net worth in these three cases.

2. Demonstrate on the chalkboard how net worth is determined. You may wish to use SBA transparency No. 41.

3. Emphasize the implications of growth or loss in net worth. Ask the class what will happen to a business that continually shows a loss in net worth year after year. Point out that net worth is one of the important health indicators of a business.

4. Turn to the balance sheet in the record book. Use Appendix B, Balance Sheet, as an illustration or one that is comparable to what might be the average for the class. It may be from an actual business but disguised so as not to be recognized by the class.

5. Have class members check their beginning-of-year balance sheet in the record book. Discuss problem areas with the class.

KEY QUESTION 2. How do you complete a monthly summary of the business?

Suggested Teaching Strategy

A monthly summary is an important tool in financial management. This summary can also be called a profit and loss statement. Its main purpose is to summarize the financial activities of the business over a period of time -- in our case, one month. It reports the income and the expenses of the business and shows the profit or loss resulting from these activities.

Made a transparency of the operating statement, Appendix C, as well as mimeographed copies for each student. Emphasize the value of the various items. Point out the value of monthly comparisons for gauging a month's activities in terms of previous performance and projected expectations.

Have each family complete the monthly summary of business in their record book.

KEY QUESTION 3. What can be gained by month-to-month comparisons of income and expense data?

Suggested Teaching Strategy

Class members want to compare how various items on their monthly summary compare with similar businesses on a percentage basis. The Accounting Corporation of America publishes a yearbook and a midyear book, The ACA Barometer of Small Business, which are good sources of data for comparison. Appropriate tables could be selected for use by the class. Appendix D contains a percentage breakdown for hardware stores with an average annual gross volume of $50,000 to $200,000. The ACA Yearbook and Midyear Book report comparable figures for 48 basic types of businesses. Class members may wish to obtain the percentages for their own lines of business.

Items that can be especially valuable in gauging a month's activities and in comparing month to month activity are total sales, net cost or merchandise sold, gross profit from business, total expenses and deductions, and net profit from business.

The following example gives some idea of what information a monthly summary can reveal. The figures were computed from average figures from two different types of businesses, but for the purposes of class discussion could be looked upon as two one-month summaries from the same business.

*Monthly Summary**

	Business #1	Business #2
1. Total Sales	$8,333.33	$8,333.33
2. Net Cost of Merchandise Sold	3,744.16	6,496.66
3. Gross Profit from Business	4,589.16	1,836.66
4. Total Expenses & Deductions	3,361.66	1,230.83
5. Net Profit from Business	1,227.50	605.83

**Adapted from: Expenses in Retail Business, NCR Marketing Education and Publications, Dayton, Ohio, 1970.*

Part IV. Summary

A. The net worth value or owner's equity shown on the balance sheet is an important indicator of how a business is doing.

B. Monthly evaluation and comparisons of profit and loss statements help gauge a month's activities in terms of previous performance and projected expectations.

Part V. At-The-Business Instruction

Review the monthly summary and balance sheet in the record book with each family. Assist each family in understanding these pages and check to see that each form is filled in accurately.

Part VI. Resources

Overhead Projector
Chalkboard, Chalk and Eraser
Balance Sheet Transparency and Handout of Farm and Industrial Equipment Dealers
Transparency and Handout on Income and Expense Statement (Monthly or Yearly Summary)
SBA Transparency No. 41

Part VII. References

A. References Cited

Expenses in Retail Business, NCR Marketing Education and Publications, Dayton, Ohio, 1970.

B. Other References

1. Accounting Corporation of America Barometer of Small Business, Accounting Corporation of America, San Diego, California, 1973.

2. Bookkeeping and Tax Record for Merchants, The Ideal System Company, Berkeley, California, 1972.

3. National Farm and Power Equipment Dealers Association, Cost of Doing Business Study for 1972: Financial and Operating Profiles of Farm and Industrial Equipment Dealers, St. Louis, 1973.

Part VIII. Appendices

A. Balance Sheet (National Farm and Power Equipment Dealers Association)

B. Table 4, Balance Sheet

C. Table 2.1, Income and Expense Statement - Business Only

D. Analysis of Operating Ratios in the U.S. (Accounting Corporation of America)

Appendix A

Balance Sheet*

Farm and Industrial Equipment Dealers With Sales Under $500,000

	All Dealers	High Profit	Low Profit
ASSETS			
Cash and government bonds	$12,098	18,839	$ 9,059
Accounts and notes receivable	20,656	29,468	17,155
Finance reserves and other	1,749	1,411	1,408
TOTAL	34,503	49,718	27,622
INVENTORIES			
New Equipment	75,129	66,170	85,093
Used equipment	16,463	17,451	18,205
Repair parts	26,973	26,641	30,284
Other lines	3,037	2,311	3,840
TOTAL INVENTORIES	121,602	112,573	137,422
TOTAL CURRENT ASSETS	156,105	162,291	165,044
Fixed assets	23,148	24,857	24,108
Other assets	2,928	5,428	1,322
TOTAL ASSETS	182,181	192,575	190,474
LIABILITIES AND NET WORTH			
Current Liabilities	105,288	95,959	128,048
Long term liabilities	15,398	14,014	16,812
TOTAL LIABILITIES	120,686	109,973	144,860
Net Worth	61,495	82,602	45,614
TOTAL LIABILITIES AND NET WORTH	182,181	192,575	190,474

---

*National Farm and Power Equipment Dealers Association, _Cost of Doing Business Study for 1972: Financial and Operating Profiles of Farm and Industrial Equipment Dealers_, St. Louis, 1973.

BUSINESS NAME______________________

TABLE 4. BALANCE SHEET - BUSINESS ONLY

CODE NO.______________________

		(A)	(B) BEGINNING	(C)	(D) ENDING
A.	ASSETS				
100.	CURRENT ASSETS:				
101.	CASH IN BANK		______		______
102.	CASH - PETTY		______		______
109.	ACCOUNTS REC. 0-30	______		______	
110.	ACCOUNTS REC. 30-60	______		______	
111.	ACCOUNTS REC. 60-90	______		______	
112.	ACCOUNTS REC. > 90	______		______	
108.	TOTAL A/R	______		______	
114.	ALL. FOR BAD DEBTS	______		______	
B.	NET A/R		______		______
115.	NOTES RECEIVABLE		______		______
116.	OPEN		______		______
121.	MDSE. INVENTORY		______		______
141.	SECONDARY MDSE. INV.		______		______
161.	PREPAID INSURANCE		______		______
162.	PREPAID TAXES		______		______
163.	OPEN		______		______
179.	TOTAL CURRENT ASSETS		______		______
180.	FIXED ASSETS:		REMAINING VALUE		REMAINING VALUE
181.	BARE LAND		______		______
182.	BUILDINGS	______		______	
183.	ACCUM. DEPR. BLDGS	______	______	______	______
184.	EQUIP. & FIXTURES	______		______	
185.	ACCUM. DEPR.-E & F	______	______	______	______
186.	VEHICLES	______		______	
187.	ACCUM DEPR-VEHICLES	______	______	______	______
190.	TOTAL FIXED ASSETS		______		______
199.	TOTAL ASSETS		______		______

TABLE 4. CONTINUED

CODE NO.____________________

		(A)	(B) BEGINNING	(C)	(D) ENDING
C.	LIABILITIES				
200.	CURRENT LIABILITIES:				
209.	ACCT. PAY. 0-30				
210.	ACCT. PAY. 30-60				
211.	ACCT. PAY. 60-90				
212.	ACCT. PAY. > 90				
208.	TOTAL A/P				
216.	NOTES PAY.-BANK				
217.	NOTES PAY.-OTHER				
218.	ACCRUED INTEREST				
219.	OPEN				
220.	FED. & FICA PAY.				
221.	STATE WITH. PAY.				
222.	FED. UNEMP. PAY.				
223.	STATE UNEMP. PAY.				
224.	STATE SALES TAX PAY.				
225.	PROPERTY TAX PAY.				
226.	OPEN				
250.	TOTAL CURR. LIAB.				
260.	LONG-TERM LIABILITIES:				
261.	MORTGAGE PAY.				
262.	INTERMED. LOANS				
263.	OPEN				
295.	TOTAL LONG-TERM LIAB.				
299.	TOTAL LIABILITIES				
300.	OWNERS EQUITY				
310.	CAPITAL ACCT.-OWNER				
311.	CAPITAL ACCT.-OTHER				
312.	CAPITAL ACCT.-OTHER				
320.	DRAW ACCT.				
321.	FED. & STATE EST. TAX				
396.	SUSPENSE				
397.	NET PROFIT				
379.	TOTAL EQUITY				
390.	TOTAL LIAB. EQUITY				
D.	GAIN OR LOSS IN OWNERS EQUITY				
E.	RATIO - CURRENT ASSETS/CURR. LIAB.				
F.	RATIO - CURRENT LIAB./INVENTORY				
G.	RATIO - FIXED ASSETS/OWNERS EQUITY				
H.	RATIO - LAND & BLDGS/L-T LIAB.				
I.	RATIO - TOTAL ASSETS/TOTAL LIAB.				
J.	RATIO - TOTAL ASSETS/OWNERS EQUITY				
K.	QUICK RATIO-CASH, A/R, ETC./CURR. LIAB.				

SIGNATURE______________________________

1.64

BUSINESS NAME ____________________

TABLE 2.1 INCOME AND EXPENSE STATEMENT - BUSINESS ONLY

CODE NO. ____________________

400.	INCOME		
421.	MERCHANDISE SALES		____________
441.	SECONDARY SALES		____________
460.	CUSTOMER LABOR		____________
461.	OUTSIDE LABOR		____________
462.	INTERNAL LABOR		____________
463.	WARRANTY LABOR		____________
472.	INTERNAL PARTS		____________
473.	WARRANTY PARTS		____________
475.	NET SALES OF GOODS & SERVICES		____________
500.	COST OF GOODS OR SERVICES SOLD		
121.	BEGINNING INVENTORY	____________	
521.	MDSE. PURCHASED	____________	
541.	SECONDARY PURCHASES	____________	
550.	FREIGHT IN COSTS	____________	
561.	SUBLET LABOR	____________	
570.	COST OF LABOR	____________	
A.	GOODS OR SERVICES AVAILABLE	____________	
121.	ENDING INVENTORY	____________	
598.	COST OF GOODS OR SERVICES SOLD		____________
599.	GROSS PROFIT FROM SALES		____________
600.	EXPENSES		
609.	PAID FAMILY LABOR	____________	
610.	SALARIES & WAGES	____________	
611.	PAYROLL TAXES	____________	
612.	ADVERTISING	____________	
613.	HEAT	____________	
614.	ELECTRICITY	____________	
615.	WATER	____________	
616.	TELEPHONE	____________	
617.	INSURANCE	____________	
618.	INTEREST	____________	
619.	REPAIR & MAINT. - LAND	____________	
620.	REPAIR & MAINT. - BUILDINGS	____________	
621.	REPAIR & MAINT. - EQUIPMENT & FIX.	____________	
622.	REPAIR & MAINT. - VEHICLES	____________	
623.	GAS, OIL & GREASE	____________	
624.	LEGAL & ACCOUNTING	____________	
625.	PROPERTY TAXES	____________	
626.	CONTRIBUTIONS & DONATIONS	____________	
627.	SHOP EXPENSE	____________	
628.	OFFICE EXPENSE	____________	
629.	ENTERTAINMENT & PROMOTION	____________	
630.	DUES & SUBSCRIPTIONS	____________	
631.	LICENSES	____________	

BUSINESS NAME ______________________________

TABLE 2.1 CONTINUED

CODE NO. __________________________

632.	TRAVEL & CONVENTION		________	
633.	POLICY ADJUSTMENT		________	
635.	DEPRECIATION - BUILDINGS	________		
636.	DEPRECIATION - EQUIP. & FIX.	________		
637.	DEPRECIATION - VEHICLES	________		
634.	DEPRECIATION TOTAL		________	
638.	BAD DEBTS		________	
639.	RENT		________	
640.	CASH SHORT/LONG		________	
641.	MISCELLANEOUS		________	
642.	DELIVERY		________	
643.	POSTAGE		________	
644.	SELLING EXPENSE		________	
645.	EMPLOYEE BENEFITS		________	
646.	TRASH & GARBAGE REMOVAL		________	
647.	BREAKAGE & SPOILAGE		________	
648.	COLLECTION EXPENSE		________	
649.	BANK CHARGES		________	
650.	SUPPLIES		________	
651.	OPEN ACCOUNT		________	
652.	OPEN ACCOUNT		________	
653.	OPEN ACCOUNT		________	
654.	OPEN ACCOUNT		________	
698.	TOTAL EXPENSES & DEDUCTIONS			________
699.	NET OPERATING PROFIT			________
B.	OTHER BUSINESS INCOME			
480.	INTEREST INCOME			________
481.	RENTAL INCOME			________
482.	ROYALTIES INCOME			________
490.	PURCHASE DISCOUNTS			________
491.	VOLUME DISCOUNTS			________
492.	OTHER			________
397.	NET PROFIT			________

SIGNATURE ____

1.66

Appendix D

Analysis of Operating Ratios in the U.S.*

Description of Ratio Classification	Hardware Stores (Nationally) Av. Annual Gross Vol. $50,000 to $200,000
Sales	100.00%
Cost of Sales	63.99
Gross Profit	36.01
Controllable Expenses:	
Outside Labor	.23
Operating Supplies	.78
Gross Wages	9.25
Repairs and Maintenance	.23
Advertising	.93
Car and Delivery	.82
Bad Debts	.02
Administrative and Legal	.47
Miscellaneous Expense	1.18
Total controllable Expenses	13.91
Fixed Expense:	
Rent	2.20
Utilities	1.04
Insurance	.81
Taxes and Licenses	.83
Interest	.11
Depreciation	1.00
Total Fixed Expenses	5.99
Total Expenses	19.90
Net Profit	16.11

---

*Adapted from: Accounting Corporation of America Barometer of Small Business--Midyear Book, 1973, Vol. 25, No. 1, Accounting Corporation of America, San Diego, California, September, 1973, p. 81.

Year I--Unit 7

CASH FLOW AND CASH FLOW PROJECTION

Part I. Student Objectives

A. Given a Sample Cash Flow Worksheet demonstrating the mechanics of a cash flow projection, the student will be able to explain the values of it as it pertains to business planning.

B. Given a Cash Flow Worksheet, the student will be able to complete a twelve month cash flow projection for the business.

C. Given a Sample Monthly Cash Budget, the student will be able to list several reasons for its use in business planning and credit purposes.

Part II. Transition of Units

The previous unit concentrated on the business balance sheet and the monthly summary (profit and loss statement) of business. A routine monthly evaluation of business activity was encouraged.

This unit deals with cash flow and cash flow projection. The importance of this subject in relation to lending institutions is stressed.

The following unit talks about employee records the business operator needs to keep. Allocation of labor expenses within the business to arrive at a realistic analysis is emphasized.

Part III. Lesson

Attention Focuser

Utilize SBA transparencies illustrated in Appendices E and F. Project the "Neglect" transparency, Appendix E, and state that a business operator can neglect his/her business without going fishing. Project the "Causes of Business Failures" transparency, Appendix F, and state that poor management might also be considered neglect. Failure to recognize and use cash flow projections fits the category of poor management.

KEY QUESTION 1. What is a cash flow projection?

A cash flow projection is the programming of finances to meet impending financial obligations such as accounts payable, notes, and non-recurring pre-planned capital expenditures while taking into consideration the current assets and impending probable sales.

A cash flow projection is, in reality, a budget. With cash flow information the budget can be at best only an estimate. Cash flow provides an element of realism to the financial trend of the business. It may suggest a need for action. It reveals the period-to-period situation with respect to such factors as earnings, property acquisition, retirement of long term debt, and working capital.

While a cash flow indicates the directional course of the business, it does not always predict problems. The projection can provide for planning in advance and may anticipate the general course of business activity. When the projection is checked against the account book records, the importance of being realistic will be demonstrated. Over-optimism may result in a budget that overestimates income and underestimates expenses. When this situation exists, the operator may be totally unprepared to meet expenses or adversities. Anticipating credit needs is an important management responsibility and a realistic cash flow projection will reveal the need for credit before it is needed.

Suggested Teaching Strategy

Duplicate Appendix A, Sample Cash Flow Worksheet, for the students and prepare a transparency of it for use in class. Use the sample worksheet to help explain the value of a projection for comparison to actual performance (what was planned with how things actually turned out).

KEY QUESTION 2. How would you complete a twelve month Cash Flow Worksheet?

The following annual cash flow worksheet is a simulation of a year's projection and end-of-year figures. The first two columns would have been filled out in January and the last column, twelve months later. The projected figures should be looked upon as a budget and should be the most realistic estimate of income and expenses possible. With a reasonable projection of income expectation along with expense projection, the business manager will have some idea of what the year holds in terms of his ability to meet expenses, retire debt and take care of family living expenses. The twelve month cash flow statement allows one to look at and plan for fluctuations in receipts and expenses that occur on a seasonal basis.

The value of a cash flow worksheet should be obvious. A banker will normally require this kind of information. Providing it ahead of time may enhance future credit dealings with the bank.

The projections can be looked upon also as a goal for this year's business activity. In other words, it is a statement that our income is going to be at least that much and we will control, if possible, various expenses to stay within the expense limits of the projection. The end-of-year figures will be the gauge that tells how closely the business came to doing what we said it would do. It might even be looked upon as a test of how well one knows his business.

Suggested Teaching Strategy

Duplicate Appendix B, Annual Cash Flow Worksheet, and Appendix C, Twelve Month Cash Flow Statement, for the students and prepare a transparency of each for use in class. Have each family work out an annual and a twelve month cash flow projection for their business on the worksheets provided. Point out that each family will check these projections at the end of each month and at the end of the twelve months to see how accurately they projected the year's business activity.

This activity may not be completed by each business family in class. It should be considered a high priority during the at-the-business visit following this unit.

An additional exercise which could be of value would be to have the class members make a detailed projection of monies that will be required for family living.

KEY QUESTION 3. What use can be made of a monthly cash budget?

Cash flow projections or cash budgets come in a variety of formats. Some may be cumbersome and difficult to understand. Although the example in the appendix contains valuable information, it may be too confusing to use in this educational program, except as a negative example. If used in classroom discussion, it should be emphasized that to be of greatest value, the format for cash flow projections should be as clear and direct as possible. Also emphasize the importance that lending institutions attach to reasonably accurate cash flow projections.

Suggested Teaching Strategy

Duplicate Appendix D, the Sample Monthly Cash Budget, for the students and prepare a transparency of it for use in class. The instructor may also want to invite in a representative of a local lending institution to discuss with the class what is required in cash flow projections for loans. If this is done, select a lending institution that does considerable business with small business persons and has relatively sophisticated cash flow projection requirement for borrowers.

Part IV. Summary

A. A cash flow projection is, in reality, an estimate budget. If it is realistic, it can be a valuable planning tool and serve as a goal for the year's business activity.

B. Lending institutions place a great deal of importance on reasonable accurate cash flow projections.

Part V. At-The-Business Instruction

Review the monthly summary and balance sheet in the record book with each family. Assist each family in understanding these pages and check to see that each form is completed accurately.

Review the cash flow projection and assist where necessary. Have each family file this projection in their class briefcase to ensure that the projection is in class when needed later on. Review with each family their past experience with cash flow projections.

Part VI. Resources

Overhead Projector
Chalkboard, Chalk and Eraser

Transparencies and Handouts of the Appendices A, B, C, and D
SBA Transparencies Nos. 18 and 16 or Transparencies of Appendices E and F
Supply of Lined Paper and Pencils

Part VII. References

1. Agricultural Extension Service, University of Minnesota, The Financial Management of Agribusiness Firms, by Frank J. Smith and Ken Cooper, Special Report 26, St. Paul, 1967.

2. Bank of America Small Business Advisory Service, "Small Business Success," Small Business Reporter, Vol. 7, No. 5, San Francisco, 1966.

3. The Ideal System Company, Bookkeeping and Tax Record for Merchants, Berkeley, 1972.

Part VIII. Appendices

A. A Sample Cash Flow Worksheet

B. Annual Cash Flow Worksheet

C. Cash Flow Statement

D. A Sample Monthly Cash Budget

E. SBA Transparency No. 16

F. SBA Transparency No. 18

Appendix A

A SAMPLE CASH FLOW WORKSHEET

	Actual Last Year	Projected This Year	Actual End of Year
Beginning Cash on Hand	$ 1,295	$ 3,755	$ 3,755
Total Cash Received (Sales & Cash Rec Col 7)	100,000	105,000	110,000
Total Cash Available	102,950	108,755	113,755
Expenses and Payments			
Paid for Merchandise (Payments Sec Col 6)	66,000	70,000	71,500
Less Cash Discounts Taken (Payments Sec Col 5)	2,000	4,000	4,500
Total Paid for Merchandise	64,000	66,000	67,000
Employees Total Earnings (Expense Sec Col 5)	11,500	12,000	11,750
Rent (Expense Section Column 10)	2,150	2,200	2,200
Repairs to Equipment, etc. (Exp Sec Col 11)	1,275	1,300	1,000
Operating Supplies (Expense Sec Column 12)	4,150	5,000	5,200
Taxes and Licenses (Expenses Sec Column 13)	475	500	500
Interest (Expense Section Column 14)	1,100	1,200	1,225
Tel., Light, Power, Heat, Water (Exp Col 15)	1,575	1,600	1,610
Advertising (Expense Section Column 16)	600	600	550
Insurance (Expense Section Col 16)	725	725	725
Other Expenses (Expense Section Column 18)	1,250	1,250	1,400
(Expense Section Column 18)			
(Expense Section Column 18)			
Contributions and other Deductions	220	250	250
Total Expenses and Deductions	89,020	92,625	93,410
Debt Retirement and Interest	7,175	10,000	10,000
Total Cash Expended (Total Exp + Debt + Int)	96,195	102,625	103,410
Cash Balance or Shortage (Total Cash Available less Total Expended)	6,755	6,130	10,345
Money Borrowed	5,000	5,000	2,500
Ending Cash on Hand	11,755	11,130	12,845
Family Living	8,000	8,000	8,000

1.72

Appendix B

ANNUAL CASH FLOW WORKSHEET

	Actual Last Year	Projected This Year	Actual End of Year
Beginning Cash on Hand			
Total Cash Received (Sales & Cash Rec Col 7)			
Total Cash Available			
Expenses and Payments			
Paid for Merchandise (Payments Sec Col 6)			
Less Cash Discounts Taken (Payments Sec Col 5)			
Total Paid for Merchandise			
Payroll, Employees Total Earnings (Exp Sec Col 9)			
Rent (Expense Section Column 10)			
Repairs to Equipment, etc. (Exp Sec Col 11)			
Operating Supplies (Expense Sec Column 12)			
Taxes and Licenses (Expense Sec Column 13)			
Interest (Expense Section Column 14)			
Tel, Light, Power, Heat, Water (Exp Sec Col 15)			
Advertising (Expense Section Column 16)			
Insurance (Expense Section Column 16)			
Other Expenses (Expense Section Column 18)			
(Expense Section Column 18)			
(Expense Section Column 18)			
Contributions and Other Deductions			
Total Expenses and Deductions			
Debt Retirement and Interest			
Total Cash Expended (Total Exp + Debt + Int)			
Cash Balance or Shortage (Total Cash Available less Total Expended)			
Money Borrowed			
Ending Cash on Hand			
Family Living			

Appendix C

TWELVE MONTH CASH FLOW STATEMENT ____________________19____

	January		February		March		April		May		June		6 Months	
	Est.	Actual	Est.	Actual	Est.	Actual	Est.	Actual	Est.	Actual	Est.	Actual	Est.	Actual
1. Cash on Hand, 1st of Month														
2. Cash Receipts During Month														
A. Cash Sales														
B. Payments on Accounts Receivable														
C. Bank Loans														
D. Other Sources														
3. Total Cash Receipts														
4. Cash Available During Month														
5. Cash Outlays for Month														
A. Merchandise														
B. Wages & Salaries														
C. Payroll Expenses														
D. Rent														
E. Utilities														
F. Insurance														
G. Interest														
H. Repairs & Maint.														
I. Advertising														
J. Supplies														
K. Delivery Expenses														
L. Taxes														
M. Misc. Expenses														
N.														
O.														
P.														
Total Mdse. & Opr. Exp.														
Loan Repayments														
Withdrawals														
Equipment Purchases														
6. Total Cash Paid Out														
7. Cash Balance End of Month														

Appendix C (Cont.)

TWELVE MONTH CASH FLOW STATEMENT

_______________19____

	July		August		September		October		November		December		Yearly Total	
	Est.	Actual	Est.	Actual	Est.	Actual	Est.	Actual	Est.	Actual	Est.	Actual	Est.	Actual
1. Cash on Hand, 1st of Month														
2. Cash Receipts During Month														
A. Cash Sales														
B. Payments on Accounts Receivable														
C. Bank Loans														
D. Other Sources														
3. Total Cash Receipts														
4. Cash Available During Month														
5. Cash Outlays for Month														
A. Merchandise														
B. Wages & Salaries														
C. Payroll Expenses														
D. Rent														
E. Utilities														
F. Insurance														
G. Interest														
H. Repairs & Maint.														
I. Advertising														
J. Supplies														
K. Delivery Expenses														
L. Taxes														
M. Misc. Expenses														
N.														
O.														
P.														
Total Mdse. & Opr. Exp.														
Loan Repayments														
Withdrawals														
Equipment Purchases														
6. Total Cash Paid Out														
7. Cash Balance End of Month														

Appendix D

A SAMPLE MONTHLY CASH BUDGET

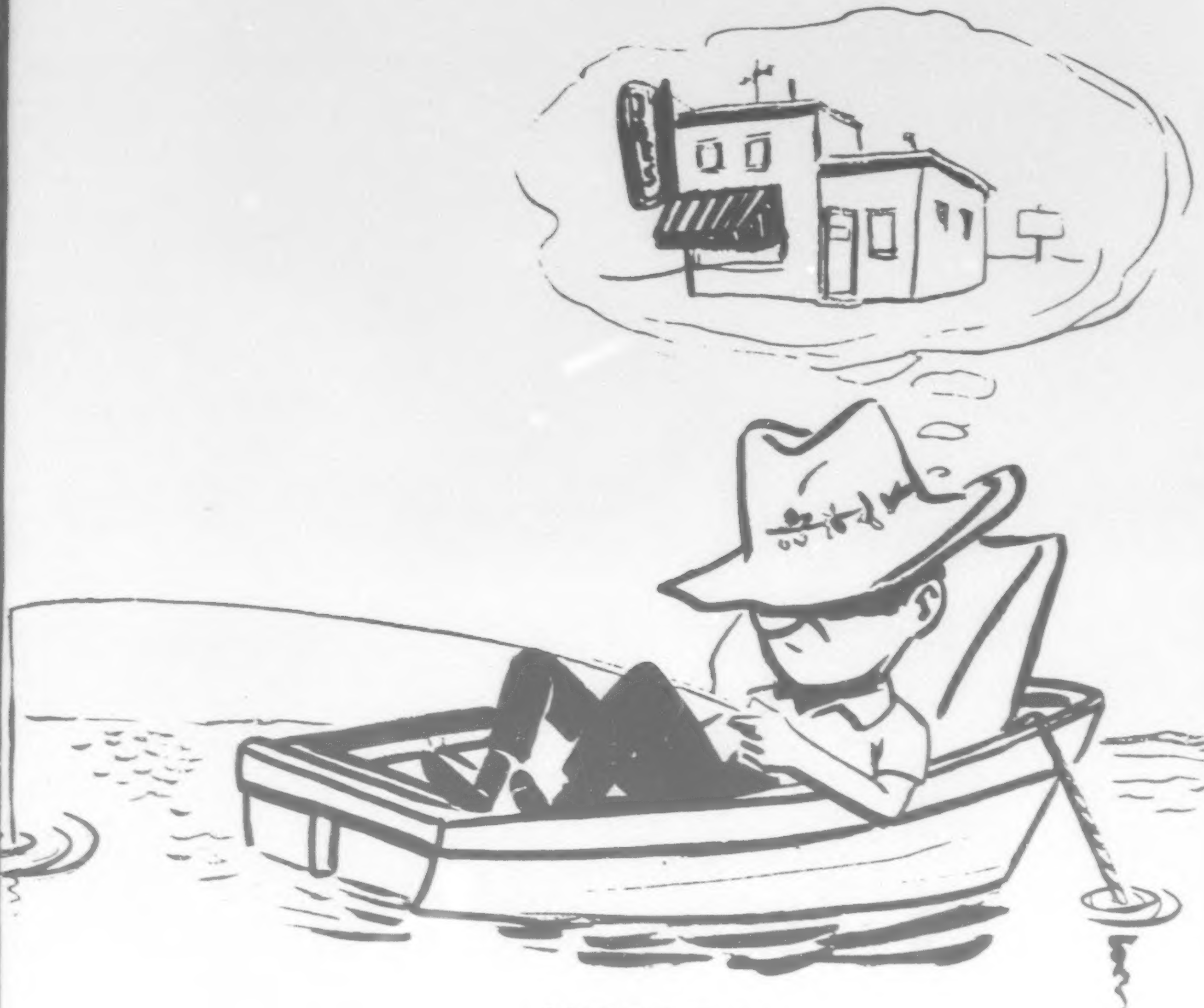
Cash Budget for Lauderdale Farm Marketing Company*

Cash Changes	Annual	September	October	November
From operations				
Cash receipts				
Cash sales	$ 415,000	$ 40,000	$ 65,000	$ 60,000
Accounts receivable	1,010,000	200,000	185,000	175,000
Total	1,425,000	240,000	250,000	235,000
Disbursements				
Accounts payable	1,254,000	225,000	230,000	175,000
Labor	60,766	7,000	6,500	5,000
Fuel, heat, light	3,573	500	500	500
Repairs	1,435	200	200	200
Selling expenses	2,059	300	300	300
Telephone	1,507	200	200	200
Supplies	1,451	250	250	250
Salaries	26,750	2,315	2,315	2,315
Insurance	4,000	350	350	350
Property taxes	6,036	0	0	3,018
Miscellaneous	4,003	265	265	265
Total	1,365,580	236,380	240,880	187,398
Cash increase from operations	59,420	3,620	9,120	47,602
From sale or purchase of fixed assets	-30,000	-30,000	0	0
From income tax payments	-3,000	0	0	0
From financing charges and dividends				
Interest payments	-5,000	0	0	-5,000
Divident payments	-5,000	0	0	-5,000
From increase or decrease in long-term debt or equity	+20,000	+15,000	-5,000	+5,000
Net change in cash balance	36,420	-11,380	4,120	42,602
Beginning cash balance	12,000	2,000	-9,380	-5,260
Ending cash balance	48,420	-9,380	-5,260	37,342
Minimum desired cash balance		6,000	6,000	6,000
Cash overage or shortage		-15,380	-11,260	31,342

---

*Agricultural Extension Service, University of Minnesota, The Financial Management of Agribusiness Firms, by Frank J. Smith and Ken Cooper, Special Report 26, St. Paul, 1967.

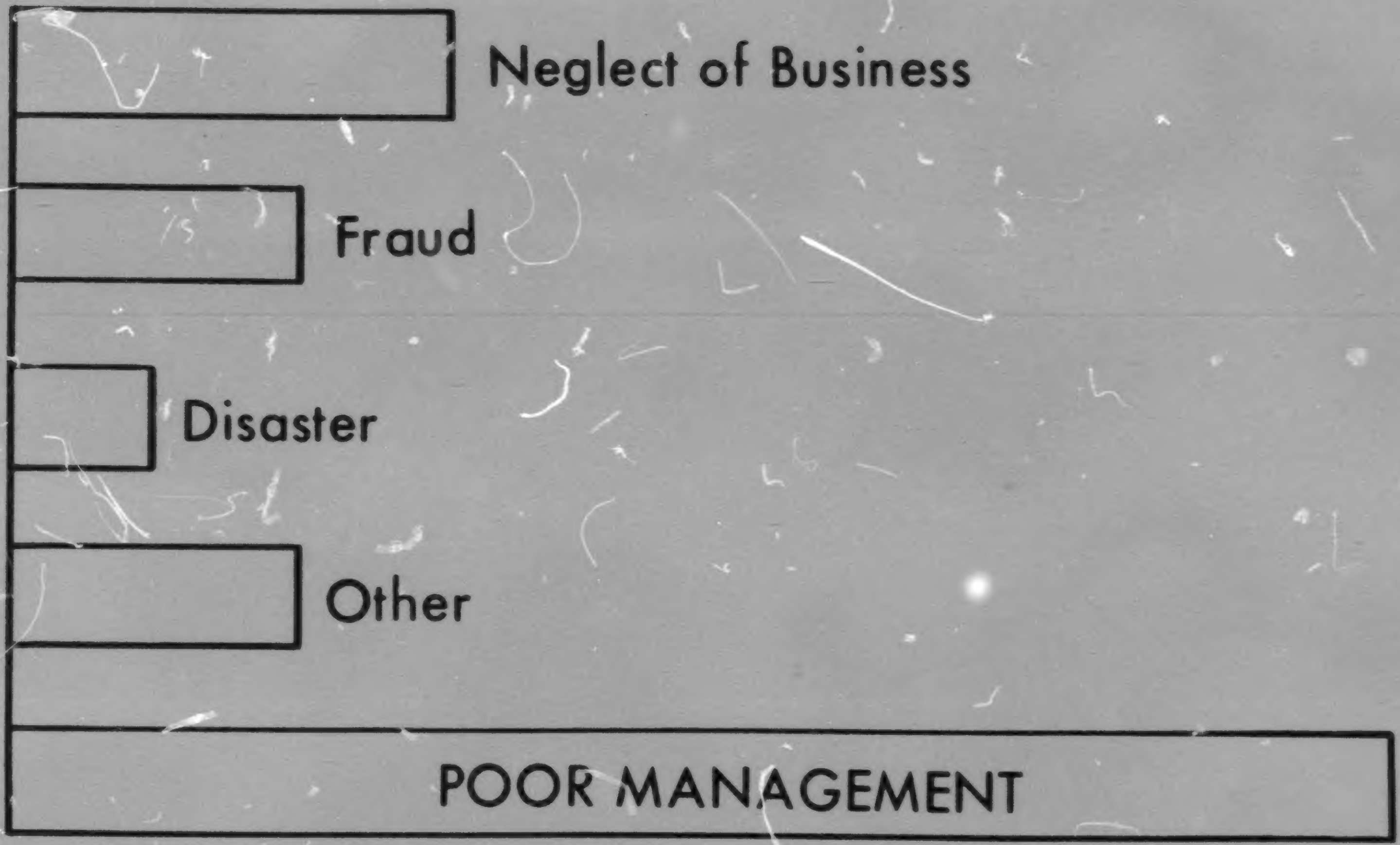
APPENDIX E



NEGLECT

APPENDIX F

CAUSES OF BUSINESS FAILURES



Year I--Unit 8

EMPLOYEE RECORDS: SOCIAL SECURITY AND INCOME TAX

Part I. Student Objectives

A. Given Circular E, Employer's Tax Guide, Internal Revenue Service, and an opportunity to discuss employee recordkeeping as governed by law, the student will be able to explain the reasons for keeping adequate and accurate records of employees' time and wage information.

B. Utilizing Circular E (Sections 1-23 as reviewed by the instructor), the student will be able to demonstrate his/her ability and understanding of social security taxes, income tax withholdings, and federal employment compensations by accurately completing the required forms for his/her business.

C. Given the opportunity to discuss the allocation of labor expenses within a selected business, the student will be able to make with 90% accuracy allocation of these expenses in his/her business to ensure a realistic business analysis.

Part II. Transition of Units

The previous unit concentrated on cash flow and cash flow projection, tools for business planning and credit procurement.

This unit deals with employee records the business family must keep and the allocation of labor expenses within the business to arrive at a realistic business analysis.

The following unit covers the major rules and regulations governing unemployment compensation, workmen's compensation and the Fair Labor Standards Act.

Part III. Lesson

Attention Focuser

Check with an area IRS agent to determine the penalties for failing to comply with laws regulating witholding of social security and income tax from the employees' wages. Utilize the penalty information, and specific examples the IRS agent may be willing to share with you to illustrate the continued importance of this subject.

KEY QUESTION 1. Why are employee records important?

The information in Circular E, Employer's Tax Guide, Internal Revenue Service, will apply to practically all businesses that employ workers. This should be a permanent part of the business file and an up-to-date copy should be obtained when necessary.

Suggested Teaching Strategy

The instructor should emphasize to the class that employee records have a significance beyond that of other business records, namely, they contain information that is important to the welfare of others. For example, failure to report and pay on an employee's wage for social security could materially affect the employee's eligibility for social security benefits.

The instructor should further emphasize that these matters are governed by law and that failure to comply with these laws can involve serious penalties. It is the employer's responsibility to ensure compliance where applicable in all of the above employee wage and safety matters. It is a responsibility that must be taken very seriously.

The instructor may find it worthwhile to contact the nearest IRS or social security office or a C.P.A. prior to teaching this unit. They may be willing to provide some assistance in presenting this unit.

KEY QUESTION 2. What are the employer's responsibilities for keeping employees' records?

Suggested Teaching Strategy

Each class member will be given a copy of Circular E, Employer's Tax Guide. It is suggested that you review Sections 1 through 23 with the class.

1. *Section 3. Discuss and demonstrate briefly Form SS-4, "Application for Employer Identification Number." (May be omitted if every class member has an employer identification number.)*

2. *Sections 6 - 14. Discuss computation of income tax withholding and FICA.*

3. *Section 15. Discuss the filing of Form 941 or in some cases Form 941-E.*

4. *Section 17. Discuss "Payment of Federal Unemployment Tax," Form 940. Note the instructions on the back of the form.*

5. *Sections 18 and 19. Review "Income Tax Withhold and Social Security (FICA) Taxes" and "Use of Government Depositories."*

6. *Section 20, "Separate Accounting for Failure to Pay Taxes Withheld" (p. 9):*

   > *"Any employer who fails to pay over employee tax or income tax withheld, or who fails to make deposits, payments, or to file tax returns, as required, may be required to deposit such taxes in a special trust account for the U.S. Government and file monthly tax returns. Severe penalties are provided for failure to make such deposits and payments."*

The previous paragraph is worth special emphasis. Briefly put, those who fail to properly file and make the required deposits will end up doing so on a monthly basis and may have severe penalties imposed as well.

7. Section 21, "Statements for Employees and Annuitants."

a. Form W-2, "Wages Subject to Income Tax Withholding," must be given to each employee from whom income tax was withhold or would have been withheld if he had claimed no more than one withholding allowance. Review this requirement and the other income reporting instructions for the W-2 form.

b. Social security statements. The FICA tax may be reported on Form W-2. If Form W-2 is not required, employee must be given a social security tax statement. A Form W-2 is preferred but a Form SS-14 or a statement containing the identifying information could be used instead. Review the remaining portion of Section 21 with the class. Emphasize when an employee must be provided with the W-2 Form or social security statement.

8. Section 22, "Report of Income Tax Withheld," reviews the filing of Form 941 or Form 941E. These must be filed on or before February 28 or when filing the final return on wages. An example of a complete Form 941 is shown on page 11 of Circular E with instructions on page 12.

9. Section 23, "Records to be Kept," emphasizes the records pertaining to employment which must be kept. A careful review of this short section with the class would be worthwhile.

KEY QUESTION 3. How can labor expenses be allocated within the business?

In Part I of this unit, we dealt with legal and employee welfare aspects of good recordkeeping. Although important, this phase is sometimes referred to as "recordkeeping for Uncle Sam." If this is the only way these records are utilized, they will have little or no impact on increasing the profitability of the business.

A business entrepreneur needs to take a good look at how these records can be used in business analysis in order for them to have an input into the profit side of the business. The class has had the opportunity of evaluating the impact of labor expense on the overall profit picture of the business when the monthly summary was completed in Unit I-6. They should now have completed at least one more monthly summary and have been able to compare labor expenses. These summaries have enabled some degree of analysis of the business to be conducted.

When the year-end analysis is accomplished we will be concerned not only with overall profitability but with the profitability of each individual department in the business. It may be that some class members may not view their businesses as having departments. After some discussion, they may be able to see the business as being composed of several segments (departments) and will begin to see how expenses could be assigned to the respective departments and how they can begin to look at the profitability of each segment of the business.

To do this, it will be necessary to accurately allocate labor expenditures to the respective departments in the same manner that other expenses are allocated. When an employee spends all of his or her time in one department a notation need only be made in the upper right hand corner of the page, designating the department to be charged with the expense. In cases where one employee works in more than one department it will be necessary to indicate the percentage of time spent in each department.

Since most businesses will not use all of the columns on the page headed "Individual Payroll Record," an unused column may be used for recording the percentage breakdown charged to each department. This percentage might be listed in the column headed "Other Compensation" or the one headed "Other Withholding Taxes."

Suggested Teaching Strategy

Along with a general discussion of the material presented under subject content, this is a good time to emphasize the value of analysis of business records. From the entrepreneur's standpoint, this is where the record stops being a record for someone else (e.g. IRS or the employee) and becomes a tool specifically aimed at the betterment of the business. Discuss situations with the class where there can be overlap of labor between departments in business. Discuss how they might estimate as accurately as possible the percentage of time an individual might spend in various departments of the business.

Turn to the individual payroll section of the record and decide how to designate breakdown of labor between departments. Have each class member who has more than one department in his or her business print the key for labor breakdown on the yellow divider sheet (tab "Special") immediately preceding this section. This department designation key must be the same as the departmental breakdown used in other sections of the records.

Part IV. Summary

A. Employee records are significant as they are important to the welfare of others. Further importance is the employer's responsibility to ensure compliance with the laws that govern these matters.

B. The legal and welfare aspects of good recordkeeping are important, but these records must also be used in the business analysis to have an impact on the profitability of the business.

Part V. At-The-Business Instruction

Some class members will need considerably more help in this area than others. The class members who have no employees won't need any help. Those who do employ, even though it may be just part-time help, should be checked with carefully on a business visit to ensure that they have an adequate understanding of recordkeeping requirement and regulations in this area.

Review with each class member the importance of a special file folder (or folders) for the reference information in this area. A careful check should be made of the employee record section of those class members who need additional help. The instructor may suggest and in some cases, help arrange visits with appropriate federal or state agencies. In some cases it may be appropriate to review the structure of the business as seen through the eyes of the class member.

Review recordkeeping to date and if appropriate, discuss changes in recordkeeping.

Part VI. Resources

Overhead Projector
Chalkboard, Chalk. Eraser
Circular E, Employer's Tax Guide
Mimeographed Copy of Date Due on Federal Withholding and Social Security and State Income Tax Payments
SBA Transparencies Nos. 101, 109, 162
Transparencies of: Quarterly Social Security Form, Withholding of State and Federal Income Tax, Unemployment Tax Form, and Payroll Sheet.

Part VII. References

1. Internal Revenue Service, Department of the Treasury, Employer's Tax Guide, Circular E, Publication 15, Washington, D.C., U.S. Government Printing Office, 1975.

2. Small Business Administration, Analyze Your Records to Reduce Costs, by Alfred B. Abraham, Small Marketers Aids No. 130, Washington, U.S. Government Printing Office, 1970.

Part VIII. Appendices: None

Year I--Unit 9

UNEMPLOYMENT COMPENSATION, WORKMEN'S COMPENSATION, FAIR LABOR STANDARDS ACT AND OCCUPATIONAL SAFETY AND HEALTH ACT (OSHA)

Part I. Student Objectives

A. Given a copy of Information for Employers on Unemployment Compensation (MES - 130) and an opportunity to discuss sections selected by the instructor, the students will be able to identify and point out reasons for compliance with the law.

B. Given a copy of the Workmen's Compensation Law of (State) and an opportunity to discuss sections selected by the instructor, the students will be able to relate logical reasons for compliance with the law.

C. Given a copy of (State) Fair Labor Standards Act, the student will review it and be able to state justifications for the employer's responsibility for compliance with its regulations.

D. Given selected OSHA pamphlets as determined by the instructor, the students will interpret and summarize their responsibilities under the law as they relate to OSHA.

Part II. Transition of Units

The previous unit covered employee records which must be kept by employers and legal responsibilities of employers toward employees relative to federal social security tax and income tax withholding. Allocation of labor expenses within the business for analysis purposes was also covered.

This unit deals with the employer's responsibility under laws governing unemployment compensation, workmen's compensation, minimum wage and OSHA rules and regulations.

The following unit will be concerned with the broad topic employer-employee relations. Current management techniques are discussed.

Part III. Lesson

Attention Focuser

Project Appendix A, A Perfect Score No Accidents, and state that this can apply to the safety condition of the business as well as compliance with the law in the area of unemployment and workmen's compensation. Project Appendix B, Black is Beautiful..., and stress the importance of following OSHA rules and regulations for safety.

KEY QUESTION 1. How is your business affected by unemployment compensation?

Good management-employee relations are important in every business. Employees who have a good understanding of the protection they have through their employment are more apt to be better employees for the business.

Minnesota Employment Services Law: Coverage depends upon the amount and type of employment as defined by law. Not all firms or organizations are covered and required to pay contributions for unemployment compensation. Responsibility does rest with employer for compliance with the law.

Suggested Teaching Strategy

It is suggested that each class member be furnished with a copy of MES-130 (or MES-22C) and the following sections should be discussed in class.

Coverage (p. 2)
Employment (p. 5)
Taxes (p. 8)
Experience Rating (p. 9)
Reports and Audits (p. 14)
Credit Against the Federal Unemployment Tax (p. 27)
Offices of the Minnesota Department of Employment Services (p. 32)

Counsel the class on the importance of their employees having a full understanding of their rights and privileges under the laws covered in Units I-8 and I-9. It is important that an employer display to business employees a very positive attitude regarding their benefits required by law. Good employee relations will be covered further in the next unit.

The instructor may find that an insurance agent or a C.P.A. could be used effectively as a resource person for this unit.

KEY QUESTION 2. How does the Workmen's Compensation Law affect your business?

Workmen's Compensation Law: As in the case of the Employment Services Law, there are exceptions in its application. Careful review of the current law will always be important. Again, a large amount of responsibility for compliance is left with the employer. This responsibility should be emphasized.

Suggested Teaching Strategy

It is suggested that each class member be furnished with a current copy of the Workmen's Compensation Law of the state. Special attention should be given to sections entitled "Application to Employers and Employees", "Employers Liability Exclusive" and "Application, Exceptions".

It is vital that current editions of the law be available or that revisions in the law by the legislature be called to the attention of the class. The instructor and class members will find personnel at the State Office for Workmen's Compensation Law very helpful on questions about the insurance. (St. Paul telephone numbers are 296-2432 and 296-2342.)

Local insurance agents who are approved by the state to sell the required insurance under this law should be very helpful in explaining the insurance coverage requirements. It is suggested that the instructor visit the agent or agents before teaching this unit.

KEY QUESTION 3. How is your business affected by the State Fair Labor Standards Act?

Minnesota's new Fair Labor Standards Act has been in effect since January 1, 1974. This act provides for a minimum hourly wage rate and for time and a half for over 48 hours per week. Every employer should have a current copy of this regulation and be familiar with it. It is available from the Documents Section, 140 Centennial Building, St. Paul, Minnesota 55155, for a nominal fee.

Suggested Teaching Strategy

Most employers will be familiar with the general provisions of this Act. Copies of the Act should be available for the class with a brief review of its major provisions handled through class discussion.

KEY QUESTION 4. What OSHA and safety considerations are important to your business?

1. Time will not permit the class to go into OSHA regulations in any detail. The following letter by the former Secretary of Labor is a good overview of employer responsibilities under OSHA. It is from the inside cover of the Department of Labor publication, Recordkeeping Requirements Under the Williams-Steiger Occupational Safety and Health Act of 1970.

   "On December 29, 1970, the president signed into law the Williams-Steiger Occupational Safety and Health Act of 1970, which became effective April 28, 1971. The purpose of this landmark legislation is to assure safe and healthful working conditions for the nation's wage earners.

   "The law provides that each employer has the basic duty to furnish his employees employment and a place of employment which are free from recognized hazards that are causing or are likely to cause death or serious physical harm.

   "Although this duty is one which employers have long accepted as a moral obligation inherent in the conduct of their business, the Williams-Steiger Act places specific responsibilities on each employer and subjects him to penalties if he fails to discharge them.

   "It is important that each employer be aware of these specific responsibilities. We urge you to review the contents of this booklet that you may know and respond to your obligations under this new Act. Included are a guide to the provisions of the Act, regulations and forms for injury and illness records to be kept from July 1 on, and a poster which must be prominently displayed in your establishment.

   "Safe and healthful working conditions are a goal worthy of the best efforts of employers, employees and all levels of government. This new law confirms the Federal commitment to this goal and we are ready to do our part. I am confident that the American business community fully shares in this commitment and will also work actively to provide safe and healthful employment to employees."

2. Business Gains With Good Safety Programs

The U.S. Department of Labor reports that in the last six months of 1971, approximately 1.2 million occupational injuries and illnesses occurred in industries other than contract construction and manufacturing. Approximately 50 percent of these occurred in wholesale and retail trade. Furthermore, occupational injuries and illnesses resulted in over 1,000 deaths in wholesale and retail trade during period.

The average number of lost workdays for each lost workday case due to occupational injuries and illnesses was 12 in the wholesale and retail trade. The Bureau of Labor Statistics reported the following statistics in a new release on August 31, 1973:

Cases/100 Man-Years of Work in the Private Non-Farm Sector (7/12/73)	
Total Number of Cases	12.1
Lost Workday Cases	3.7
Nonfatal Cases Without Lost Workdays	8.4

This breaks down by size of the reporting unit as follows:

No. of Employees	Rate
All Sizes	12.1
1 - 19	6.8
20 - 49	12.1
50 - 99	15.5
100 - 249	16.5
250 - 499	15.3
500 - 999	13.0
1000 - 2499	11.2
2500 and over	10.8

Suggested Teaching Strategy

Pass out the following pamphlets to each class member prior to starting the discussion of OSHA. They can be obtained from your nearest Federal OSHA office.

1. *Bureau of Labor Statistics, U.S. Department of Labor, What Every Employer Needs To Know About OSHA Recordkeeping, Report 412 (Revised), Washington, D.C., U.S. Government Printing Office, 1973.*

2. *Occupational Safety and Health Administration, U.S. Department of Labor, Recordkeeping Requirements Under the Williams-Steiger Occupational Safety and Health Act of 1970, Washington, D.C., U.S. Government Printing Office.*

3. *Occupational Safety and Health Administration, U.S. Department of Labor, "Occupational Safety and Health Standards," Federal Register, Vol. 37, No. 202, October 18, 1972, Washington, D.C., U.S. Government Printing Office.*

4. Occupational Safety and Health Administration, U.S. Department of Labor, "Safety and Health Regulations for Construction," Federal Register, Vol. 37, No. 243, December 16, 1972, Washington, D.C., U.S. Government Printing Office.

The instructor may wish to visit with the people in the Occupational Safety and Health Administration, Department of Labor, before teaching this unit. At the time of writing this unit, employers with fewer than seven employees were exempted from some of the recordkeeping requirements of this Act.

Review the publication, Recordkeeping Requirements Under the Williams-Steiger Occupational Safety and Health Act of 1970 with the class. Emphasize the centerfold poster in the publication and the requirements for display of this poster. Review the penalties for failure to comply with this requirement.

What Every Employer Needs to Know About OSHA Recordkeeping presents OSHA information in a question and answer format covering many of the questions employers are likely to ask about OSHA recordkeeping. The instructor might pick a few questions from this publication for class discussion. The publication also lists the area offices. The Minnesota area office is: 110 South Fourth Street, Room 437, Minneapolis, Minnesota 55401 (p. 26). FTS and commercial phone: AC 612 725-2571.

Present some of the statistical data in Key Question 4 above. Emphasize the cost to the employer of occupational injuries and illnesses. Point out that being safety conscious is a state of mind that requires constant attention. Emphasize the importance of the employer having a positive attitude about OSHA requirements. Since OSHA is designed for the good of the employee, being less than completely positive about the law's requirements cannot help but detract from employee morale. Suggest that employers give a safety briefing to all new (and perhaps long-standing) employees and that a record be kept in the OSHA file including the date of briefing, subject covered, etc.

Part IV. Summary

A. While many small businesses are not covered or affected by the laws and regulations covered in this unit, it is important for class members to be familiar with them, as changes in business size or structure in the future could bring them under the coverage of the laws.

B. It is important for the employer to understand that compliance with the several laws covered in this unit is his/her responsibility.

Part V. At-The-Business Instruction

The general implications of recordkeeping requirements for items covered in this unit will be discussed in class. However, the application of the law may be somewhat unique to each business. For this reason it is suggested that recordkeeping on employees and the specific application of these laws to his/her business be reviewed with each business operator. Discuss what understanding employees are thought to have of their rights and privileges under these laws. Review the business records to date and discuss any recordkeeping problems.

Part VI. Learning Resources

Chalkboard, Chalk, Eraser
SBA Transparency No. 101
SBA - SMA No. 132, The Federal Wage-Hour Law in Small Firms
SBA - SMA No. 142, Steps in Meeting Your Tax Obligation
Student Copies of MES-130, "Information for Employers on Unemployment Compensation," "State Workmen's Compensation Law," and "State Fair Labor Standards Act."
Transparencies of Appendices A & B

Part VII. References

1. Bureau of Labor Statistics, U.S. Department of Labor, What Every Employer Needs to Know About OSHA Recordkeeping, Report 412 (Revised), Washington, D.C., U.S. Government Printing Office, 1973.

2. Minnesota Department of Employment Services, Information for Employers On Unemployment Compensation, MES-130, St. Paul, Minnesota, 1973.

3. Minnesota Fair Labor Standards Act, St. Paul, Minnesota.

4. Occupational Safety and Health Act of 1970, Public Law 91-596, 91st Congress. S. 2193, December 29, 1970.

5. Occupational Safety and Health Administration, U.S. Department of Labor, "Occupational Safety and Health Standards," Federal Register, Vol. 37, No. 202, October 18, 1972, Washington, D.C., U.S. Government Printing Office.

6. Occupational Safety and Health Administration, U.S. Department of Labor, Recordkeeping Requirements Under the Williams-Steiger Occupational Safety and Health Act of 1970, Washington, D.C., U.S. Government Printing Office, 1972.

7. Occupational Safety and Health Administration, U.S. Department of Labor, "Safety and Health Regulations for Construction," Federal Register, Vol. 37, No. 203, December 16, 1972, Washington, D.C., U.S. Government Printing Office.

8. Occupational Safety and Health Administration, U.S. Department of Labor, Training Requirements of the Occupational Safety and Health Standards, Washington, D.C., U.S. Government Printing Office, 1973, OSHA 2092.

9. Office of Information, U.S. Department of Labor, News Release, Washington, D.C., June 15, 1973. USDL 73-256.

10. Office of Information, U.S. Department of Labor, News Release, Washington, D.C., August 31, 1973. USDL 73-256.

11. United States Department of Labor, Handy Reference Guide to the Fair Labor Standards Act. Washington, D.C., U.S. Government Printing Office, 1972.

12. Workmen's Compensation Law of Minnesota and Related Laws, St. Paul, Minnesota, 1971.

Part VIII. Appendices

A. A Perfect Score No Accidents

B. Black is Beautiful...

Appendix A

A Perfect Score
NO ACCIDENTS

black is beautiful

white is beautiful

red is beautiful

yellow is beautiful

and safety keeps

them beautiful

Year I--Unit 10

EMPLOYER-EMPLOYEE RELATIONS

Part I. Student Objectives

A. Given data on the importance of employee relations and an opportunity to discuss the issue in class, the student will be able to relate the subject of good employee relations to the success of a business through giving several examples.

B. Given the essential items for establishing good employer-employee relations as identified by the instructor, the student will recognize and differentiate between the items identified as being the employer's role and will be able to suggest workable methods of implementation.

C. Given the essential items for maintaining good employer-employee relations as identified by the instructor, the student will be able to recognize and write several suggestions which would aid the employee in fulfilling his role in this process.

D. Given an explanation and format for developing and reviewing a management by objectives plan, the student will be able to describe the benefits of an MBO plan for his/her business.

Part II. Transition of Units

The previous unit dealt with the employer's responsibility under laws governing unemployment compensation, workmen's compensation, minimum age and OSHA rules and regulations.

This unit will cover both the employer and the employee's role and their relationship to each other. Current management techniques will be discussed.

The following unit will cover depreciation of capital assets with an emphasis on tax management of these assets.

Part III. Lesson

Attention Focuser

The "Mutual Objectives" transparency, Appendix A, depicting the old story about two stubborn mules should evoke some lively discussion. Employers as well as employees need a keen appreciation for the pulling-together aspect of mutual effort. Elicit examples of situations that may result in employer and employee pulling in different directions. Note the responses on the board.

KEY QUESTION 1. Why are good employer-employee relations important?

A recent Kiwanis newsletter carried the following item:

> A group of teachers were surprised by the results of a questionnaire they sent to more than 2,000 employers. As a service to students they asked: "Will you please look up the last three persons dismissed from

> your business and tell us why you let them go?" In two out of three cases, regardless of type of work or section of the country, the answer was the same: "They couldn't get along with other people."

Not being able to get along with people is a problem that employers have too. Often customer relations are good but to give similar consideration to employees is somehow overlooked. Employees are people. A capacity for empathy will serve an employer well in his/her employee relations. Happy employees are usually profitable employees.

The Employee Role:

In small businesses with labor needs beyond that furnished by the immediate family, employees are a vital party-at-interest. It is through the employees' efforts that commodities and services are produced which enable the company to realize a profit. The employee is dependent on the business for wages, security, good working conditions, etc., which satisfy economic, psychological and social needs. It is important that we recognize that employees' wants and needs may change.

The SBA publication Personality and Success states:

> "A vital factor in any business is the morale of employees; it is a good index of their satisfaction with management. Employee morale has long been recognized as a basic contributor to a firm's production and technology, and management's fund of resources for party-at-interest satisfaction depends on this level." (Pickle, p. 14)

Building and maintaining good employee morale involves a number of things. However, a large part of the problem is solved if the employer's attitude is people centered.

Suggested Teaching Strategy

The instructor will find it difficult to give extensive treatment to the subject of this unit in the time allowed. The intent here is not to cover the subject of good employee relations in detail, but simply to introduce some basic concepts which hopefully will lead to further thinking and study on the part of the class members. The instructor will find the SBA Publications and transparencies listed in the reference section helpful.

KEY QUESTION 2. What is the employer's role in employer-employee relations?

A. Selection procedure

1. Analyze the job
2. Determine the abilities needed for success
3. Find out what personal factors are needed (age, education, etc.)
4. Write a complete job description
5. Find out what tests, if any, will help predict competence
6. Recruit widely and wisely
7. Interview objectively
8. Have an associate also interview the applicant
9. Review the important biographical items
10. Test the applicant

11. Check on all references, at least by telephone
12. Put all the information together and review it carefully before you make a decision

B. Evaluation of employees

1. Evaluation instruments
2. Determine interests and loyalty

C. Items important to group morale

1. Security
2. Interest
3. Opportunity for advancement
4. Appreciation
5. Company and management
6. Intrinsic aspects of job assignment
7. Wages
8. Supervision
9. Social aspects of job
10. Working conditions
11. Communications
12. Hours
13. Ease
14. Benefits

D. Paying employees

1. Systems of pay
    a. Straight wage
    b. Incentive, commission or bonus plans
2. Fringe benefits

E. Working conditions

1. Number of days per week and hours
2. Facility, equipment and tools
3. Heating, cooling and lights
4. Sanitation and safety

Suggested Teaching Strategy

Dissatisfied employees and high employee turnover rates can often be prevented through use of a good selection procedure. The several steps in this procedure are outlined above. Not all the steps may be appropriate or possible in some small businesses. The sample job description and application forms in the appendix should be used as you work the class discussion through the points listed under selection. Utilize transparencies: SBA No. 153 and two instructor-made ones taken from SBA's Small Marketers Aids No. 136, "Hiring the Right Man," January 1969.

Some employers may wish to avoid the difficult task of dismissing employees for moderate or poor performance. While it may still be the responsibility of the employer to "fire" an employee, an employee rating scale as found in the appendix can help to document the reasons for dismissal. Discuss means of determining an employee's interest and loyalty to his/her job.

The items listed under "C" on group morale represent a normal ranking by employees on what they consider most important to their jobs. Ask the class to write down several things in order of importance they feel employees consider most important. Discuss their responses before indicating what most questionnaires show the employees' responses to be. Point out that while wages may be a prime concern, there can be additional factors affecting an employee's attitude. You may wish to use SBA transparencies Nos. 33, 31 and 150 (in that order) to discuss how the manager needs to examine personal traits.

Discuss and illustrate with local examples the different pay systems and the types and costs of various fringe benefits. Also discuss the importance of the items listed under working conditions to the attitude and production of the employee.

KEY QUESTION 3. What is the employee's role in employer-employee relations?

One nationwide poll showed the following responses.

Ranking By Employees	What Employees Want	Ranking By Management
1	Credit for all work done	7
2	Interesting work	3
3	Fair pay	1
4	Understanding and appreciation	5
5	Counsel on personal problems	8
6	Promotion on merit	4
7	Good physical working conditions	6
8	Job security	2

It should be noted that in all cases the rankings by each group were different. The employer needs to consider that the employee's needs and wants may change during the period of his/her employment.

Suggested Teaching Strategy

The poll shown above may be used to initiate discussion on the employee's role. List the items on the board without showing the rankings just as they are shown above. Ask the students to rank them under the "Ranking by Management" as they think the employees would rank them. When you have completed their ranking (through group concensus or by individual effort) show them the rankings determined by the above poll. Discuss use of an employee suggestion system.

KEY QUESTION 4. What can a system of managing by objectives do for your business?

A. Management By Objectives (MBO) is a proven management system which first establishes common goals and objectives that must be achieved.

   1. All employees of the business receive basic direction.
   2. All employees travel in the same direction, working toward mutually understood objectives.
   3. All employees are evaluated on workable criteria established against known objectives.
   4. If accountability is desired, the known, measurable factors for it will exist.
   5. All employees work toward mutually understood objectives rather than with detailed programs arbitrarily passed down from above.

B. Proven management principles

   1. To the degree that requirements for performance of any job are identified, performance improves.
   2. To the degree that the measurements by which that performance will be judged are known beforehand, performance improves dramatically.

Suggested Teaching Strategy

This system can be used with any sized business. The prime objective or importance of a system of this nature is that it keeps open the communication channels between the employer-manager and the employees.

Discuss the main points listed above with the class. A role-playing illustration of an employer and employee involved in writing or discussing mutual objectives might be used at this time to further explain the system.

SBA transparencies Nos. 45, 52, 77 and 148 can be used in discussing Key Question 4.

Part IV. Summary

A. The inability of people to get along with other people can be a serious problem within a business.

B. The employer-manager needs to be people-centered in carrying out the employer's role in employer-employee relations.

C. The employee is responsible for loyalty to the job and interest in job task.

D. An MBO system can be a valuable management tool for a successful business.

Part V. At-The-Business Instruction

Review hiring and dismissal practices with each business family. Assist in the development of written job descriptions for all employees. Aid the development or improvement of employer-employee communications through a review of the present situation. Bring out the need for employer empathy and the possibility of establishing an employee suggestion system.

By the time this unit is taught the instructor should have a good perspective of the business family-employee relations based on prior visits and will know what specific problems need to be addressed.

Part VI. Resources

Chalkboard, Chalk and Eraser
Overhead Projector
Transparency of SBA's Small Marketers Aids No. 136 (front and back)
SBA Transparencies Nos. 31, 33, 45, 52, 77, 148, 150 and 153
Handout of Sample Application, Sample Job Description and Employees Rating Scale (Appendices B, C, and D)
Transparency of "Mutual Objectives" (two stubborn mules), Appendix A

Part VII. References

A. References Cited

Small Business Administration, Personality and Success: An Evaluation of Personal Characteristics of Successful Small Business Managers, by Hal B. Pickle, Small Business Research Series No. 4, Washington, D.C., U.S. Government Printing Office, 1965.

B. Other References

1. SBA, Human Factors in Small Business, Administrative Management Course Program Topic 10, Washington, D.C., U.S. Government Printing Office, 1965.

2. SBA, Human Relations in Small Business, by Martin M. Bruce, 3rd Edition, Business Management Series No. 3, Washington, D.C., U.S. Government Printing Office, 1969.

3. SBA, Personnel Management: Developing Good Employees, Administrative Management Course Program Topic 6, Washington, D.C., U.S. Government Printing Office, 1965.

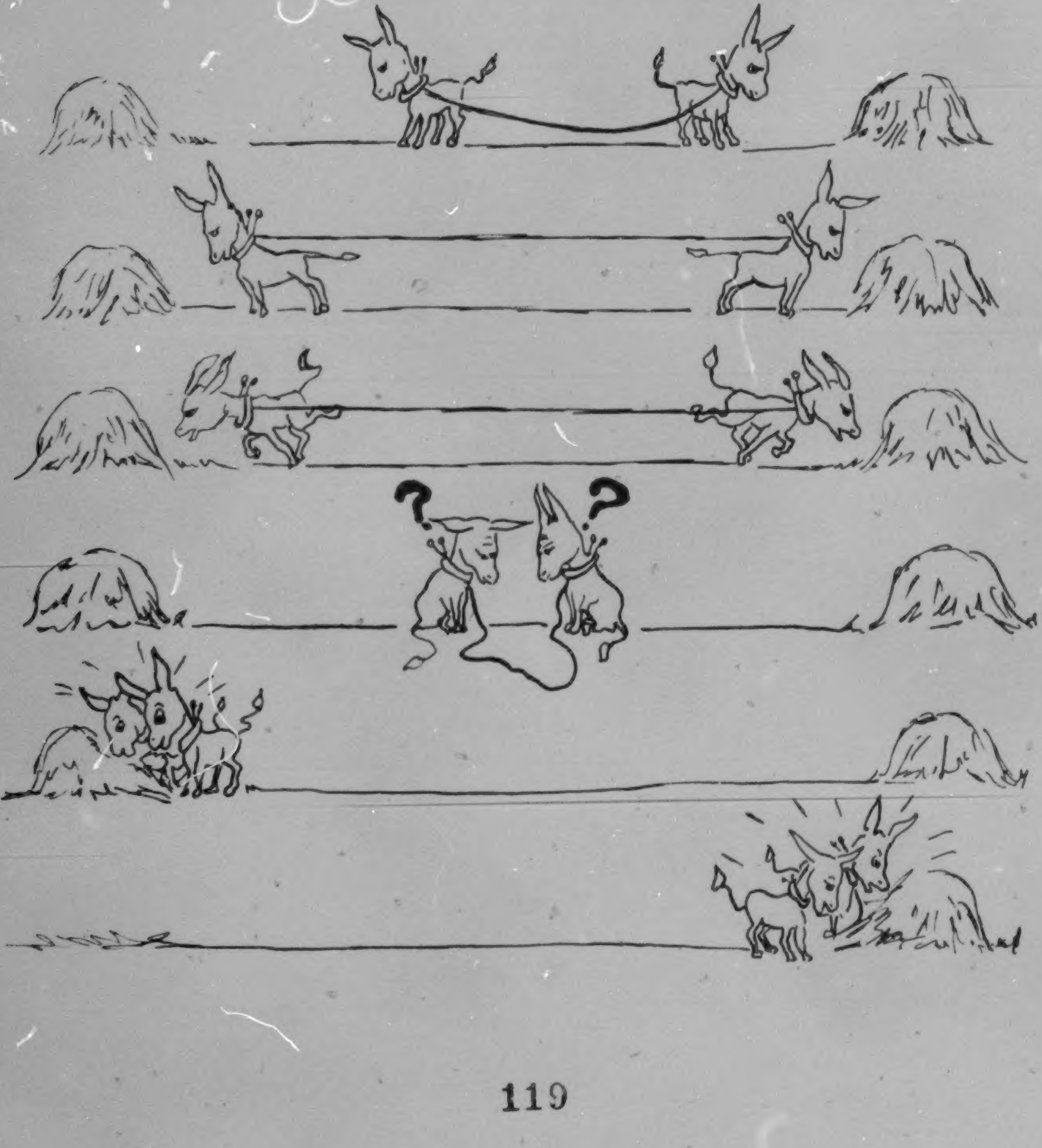
4. SBA, Problems in Managing a Family-Owned Business, by Robert E. Levinson, Management Aids No. 208, Washington, D.C., U.S. Government Printing Office, 1971.

Part VIII. Appendices

A. Mutual Objectives
B. Sample Application
C. Sample Job Description
D. Employee Rating Scale

Appendix A

MUTUAL OBJECTIVES



Appendix B

SAMPLE APPLICATION*

Name	Social Sec. No.
Address	Phone No.

Date of Birth	Height	Weight	Married Single	Number of Dependents

Circle highest year of schooling completed: 1 2 3 4 5 6 7 8 9 10 11 12

Name of School	Course and Subjects
Do you have a driver's license? Yes No	Do you own tools? Yes No

Last Employer	Describe Job
Address	
Your Supervisor	Length of Employment
Date Left	Reason for Leaving

Previous Employer	Describe Job
Address	
Your Supervisor	Length of Employment
Date Left	Reason for Leaving

If you have never worked before, please give the name and address of the:

(1) School Principal	(2) School Counselor (or Last Teacher)

---

*SBA, Personnel Management: Developing Good Employees, Administrative Management Course Program Topic 6, Washington, D.C., U.S. Government Printing Office, 1965.

Appendix C

SAMPLE JOB DESCRIPTION*

Job Title: Office and credit manager

Supervisor: Store manager

Job Summary

Responsible for all office and credit functions of the store. Has control of store's assets and expenditures. Helps manager administer store's policies and methods. Exercises mature judgement and initiative in carrying out duties.

Duties

1. Inspects sales tickets for accuracy and completeness of price, stock classifications and delivery information. (Daily)
2. Prepares bank deposit, listing checks and cash, and takes deposit to bank. (Daily)
3. Keeps sales and expenses record sheets, posting sales and expenses, and accumulating them for the month. (Daily)
4. Processes credit applications: analyzes financial status and paying record of customers; checks references and credit bureau to determine credit responsibility. (Daily)
5. Sends collection notices to past-due accounts, using mails, telephone calls, and personal visits, if necessary, to collect. (Daily)
6. Sells merchandise during rush hours of the store. (Daily)
7. Checks invoices of outside purchases to verify receipt, quantity, price, etc. Gets store manager's approval. (Weekly)
8. Does all bookkeeping and prepares financial and profit and loss statements of store. (Monthly)

Duties	Approx. time spent on each duty (percent)
Bookkeeping	40
Credit and collection	20
Selling on retail floor	20
Inventories and stock control	10
Miscellaneous functions	10

Handout No. 6-2

---

*SBA, Personnel Management: Developing Good Employees, Administrative Management Course Program Topic 6, Washington, D.C., U.S. Government Printing Office, 1965.

Appendix D

EMPLOYEE RATING SCALE*

Name____Date__________________
Dept.____Job___________________
Rated by____

Instructions

This Rating Scale is an aid to measure--with a reasonable degree of accuracy and uniformity--the abilities of one of your employees and his skill in his present job. It will help you to appraise his present performance as compared with previous performance in the same job; and it may indicate promotion possibilities. Because the rating requires your appraisal of the employee's actual performance, snap judgment must be replaced by careful analysis. The following instructions may be helpful.

1. Disregard your general impression and concentrate on a single factor at a time.
2. Read all four specifications for each factor before determining which one most nearly fits the employee.
3. In rating an employee, make your judgment on instances occurring frequently in his daily routine. Don't be swayed by isolated incidents that aren't typical of his work.
4. Don't let personal feelings govern your rating. Make it carefully so that it represents your fair, objective opinion.

Factor	1	2	3	4
a. Quality of work	Poor; often does unacceptable work; is careless, requires constant supervision.	Fair; needs supervision and frequent checking.	Generally good; makes only occasional mistakes and requires little supervision.	Excellent; work is A-1 most of time; makes very few mistakes; needs supervision only very occasionally
B. Quantity of work	Very slow; almost never does complete job in time assigned for it.	Erratic; sometimes fast and efficient, other times slow and unskillful.	Steady worker; does job consistently, and occasionally does more.	Exceptionally fast; does work quickly and well; does extra work to stay busy.
c. Flexibility	Does not adapt readily to new situations; most of the time. instructions must be repeated frequently.	Adequate; requires thorough, complete instruction before taking on new duties or new type of work.	Quick; learns new assignment in short time if given some instruction.	Very adaptable; fast learner, quickly meeting needs of new situation or assignment.
d. Job knowledge	Limited knowledge of job; shows little desire to improve.	Passable knowledge of job; needs frequent instruction and continuing supervision.	Well informed about job; rarely needs instruction or assistance.	Full knowledge of job; able to proceed alone on almost all work.
e. Responsibility	Irresponsible in attendance; seldom carries out orders without being prodded.	Some absences; occasionally needs reminder to do work assigned.	Attendance record good; reliable in work.	Excellent attendance record; most reliable in doing work assigned; can always be depended on.

1.104

Factor	1	2	3	4
f. Housekeeping	Never cleans working area; is reckless in behavior	From time to time, cleans work area; is occasionally negligent about safety.	Keeps work area clean; is careful about safety.	Keeps work area spotless; is unusually careful about safety.
g. Attitude	Uncooperative; often complains; is a disruptive influence among other employees.	Some cooperation, but often indifferent both to fellow workers and to quality of own work.	Usually cooperative; attentive to work; gets along well with others.	Exceptionally cooperative; very interested in work; always helpful to others and considerate of them.

Handout No. 6-3

*SBA, Personnel Management: Developing Good Employees, Administrative Management Course Program Topic 6, Washington, D.C., U.S. Government Printing Office, 1965.

Year I--Unit 11

THE DEPRECIATION SCHEDULE

Part I. Student Objectives

A. Given Sample Depreciation Computations, the student will be able to explain those terms used in depreciation calculation identified by the instructor as being important.

B. Given sample computations of Straight Line, Declining Balance and Sum of the Year Digits depreciation methods, the student will be able to discriminate between the uses for each method in the business as related to calculating business earnings.

C. Given a definition of investment credit and an explanation of its use by the instructor, the student will be able to calculate the amount of investment credit to be used as a direct credit against tax liability.

Part II. Transition of Units

The previous unit dealt with employer-employee relations. The roles of the employer and employee were covered and an MBO system of management was discussed.

This unit covers the subject of depreciation. The various methods of depreciation and their effects on long range business planning are discussed.

The following unit talks about income tax management and making an income tax estimate.

Part III. Lesson

Attention Focuser

Have each student write a definition of depreciation as he/she understands it. Ask a few students to share their definitions with the class on a voluntary basis. Discuss very briefly the differences found.

KEY QUESTION 1. What are some of the important terms and procedures you should know in calculating depreciation?

DEPRECIATION

I. Defined

Depreciation is a reasonable allowance for the exhaustion, wear and tear, and obsolescence of depreciable property having a useful life of more than one year and is used in a trade or business or held for production of income.

II. Basis for Depreciation

Same as adjusted basis for determining gain on the sale of the asset.

A. Purchased asset - basis is cost, unreduced by liens on the asset or unpaid purchase price.
B. Gift property - basis is same as in hands of donor.
C. Inherited asset - basis is fair market value at decedent's death.
D. Asset converted to business use - basis is lesser of fair market value on date of conversion or adjusted basis of property at that time.
E. Asset acquired along with other properties for a lump sum - basis is that part of the lump sum that its value at date of acquisition bears to total value of all properties obtained at that time.

Example: Taxpayer pays $9,000 for two assets valued at $4,000 & $6,000 at time of purchase. Basis for depreciation is computed as follow:

$4,000/$10,000 x $9,000 = $3,600

$6,000/$10,000 x $9,000 = $5,400

III. Useful Life

A. Determined from taxpayer's particular operating conditions and experience and may be influenced by:
    1. Frequency of use.
    2. Age at acquisition.
    3. Policy of repairs and replacement.
    4. Economic changes.
    5. Advances in technology, and other developments within an industry and a trade or business.

B. Useful life may also be selected from the Asset Depreciation Range if ADR is used.

C. Useful life may be modified because of conditions known to exist at the end of any tax year. The change may be made when necessary regardless of the method of computed depreciation.

IV. Salvage Value

A. The amount expected to be realized in cash or trade-in allowance when the property is disposed of or is no longer useful.

B. Salvage value is subtracted from the depreciation basis before applying the depreciation rate:
    1. Under straight line method.
    2. Under sum of the years digits method.
    3. BUT NOT under the declining balance method or for the Additional First Year Depreciation.

C. Regardless of method chosen, an asset can never be depreciated below its salvage value.

D. The salvage value of personal property (except livestock) with at least a three (3) year life may be reduced by up to 10% of its cost or other basis (Sec. 167(f) IRC).

V. Additional First Year Depreciation
- A. Section 179 IRC allows a taxpayer (except a trust) to elect to deduct an additional first-year depreciation allowance on new or used tangible personal property having a remaining useful life of six (6) years or more.
- B. Amount of deduction
  - 1. 20% of up to $10,000 ($20,000 on joint return) of the cost of a selected item or items.
  - 2. The maximum deduction is $2,000 a year ($4,000 on joint returns)
    - a. NOTE: This limitation is per taxpayer per year, NOT per item!
- C. The basis for depreciation is reduced by any additional first-year depreciation claimed before applying the depreciation rates to calculate the regular depreciation allowance.

  Example: Additional first-year depreciation claimed on a $13,000 asset (no joint return) would be $2,000 (20% of $10,000 max.) and the basis for regular depreciation would be $11,000 ($13,000 less the $2,000 first-year depreciation).
- D. The additional allowance is not allowed on purchase transactions between related taxpayers, related partners and partnerships, and certain members of the same affiliated group of corporations.

VI. Methods of Computing Depreciation
- A. Any reasonable method that is consistently applied may be used in computing depreciation. The methods most often used are:
  - 1. Straight line
    - a. Simplest method
    - b. Assumes a deduction in equal amounts over the period of its estimated life
    - c. May be used for any depreciable property
    - d. Compute deduction by dividing the cost less salvage by the useful life
  - 2. Declining Balance method
    - a. In using the declining balance method the rate is always determined by referring to "times the straight line rate", e.g. 150% declining balance is 1-1/2 times the normal straight line rate.
    - b. The depreciation taken each year is subtracted from the cost or other basis of the property before computing the next year's depreciation.
    - c. The same rate applies to a smaller, or declining balance each year.
    - d. The property must be tangible, have been acquired and put in use by the taxpayer after 12/31/53, and must have a useful life of at least three (3) years.

Example:

On 1-1-75, taxpayer purchased an $11,000 machine to use in his business. The machine has a useful life of 5 years and will have a salvage value of $1,000. The 200% declining balance depreciation is computed is computed as follows:

Year	Cost	Unrecovered Cost, Jan. 1	Rate	Yearly Deduction	Unrecovered Cost, Dec. 31
1975	$11,000	$11,000	40%[1]	$4,400[2]	$6,600
1976		6,600	40%	2,640[3]	3,960
1977		3,960	40%	1,584	2,376
1978		2,376	40%	950	1,426
1979		1,426	40%	426[4]	1,000

1. Straight line rate = 1/5 or 20%. Therefore, double declining balance method rate = 20% x 2 or 40%.
2. Deduction = unrecovered cost times rate.
3. $11,000 - $4,400 = $6,600 x 40% or $2,640.
4. The computed depreciation deduction = $570 ($1,426 x 40%). However, the deduction must be limited to $426, because no asset may be depreciated below its reasonable salvage value.

3. Sum of the years digits
    a. May be used only on property that meets the requirements for "twice the straight line rate" under the declining balance method.
    b. Apply a different fraction each year to the cost or other basis of property reduced by estimated salvage. The denominator of the fraction, which remains constant, is the total (sum) of the digits representing the useful life. The numerator of the fraction changes each year to represent the remaining useful life of the property at the beginning of that year.

VII. Asset Bought or Sold During the Year

A. Various averaging conventions are allowable if reasonable and applied consistently, e.g.:
    1. Treat an asset as having been held a full month if it was acquired on or before the 15th of the month.
        a. If acquired after the 15th, the month would not be counted.
        b. Count the disposition month only if the asset is disposed of after the 15th of the month.
    2. Another way would be to count the month of acquisition and exclude the month of disposition regardless of the day acquired or disposed of.
    3. May also make computation of the exact number of days held.
    4. NOTE: If the sum of the years digits method is used, allocations must be made throughout the useful life of the asset.
    Example:

    If an asset is held three months in the year it is bought, 3/12 of the first full year's depreciation is deductible in that year. In the second taxable year held, 9/12 of the first full year's depreciation and 3/12 of the second full year's depreciation are deductible.

VIII. Real Estate Depreciation

A. Straight line method can be used for any property qualifying for depreciation.

B. New property (not residential rental) acquired and put in original use by the taxpayer after 7/24/69 would qualify for 150% declining balance rate.

C. Used property (not residential rental) owners generally must use straight line depreciation.

D. New residential rental property qualifies for 200% declining balance.
  1. Must be rental property located within the U.S., its possessions and certain foreign countires.
  2. The original use begins with the taxpayer and
  3. 80% or more of the gross rental income from the building must be rental income from dwelling units.
    a. If renting both real and personal property, the portion of the rent attributable to the personal property is not gross rental income for this test.
    b. Rent supplement payments and interest reduction payments received on behalf of tenants are gross income from rentals.
    c. The 80% test is computed each year.

E. Used residential rental property, if:
  1. Acquired after 7/24/69,
  2. Meets the 80% gross rental income test, and
  3. Useful life of at least 20 years,

  then the property will qualify for 125% declining balance method.
    a. Owners of used property that is not used residential rental must use straight line depreciation.

Example:

Date Acq.	Cost	Description	Life	Gross Income Test '75/'76	Rate '75/'76	Deduction '75/'76
1-1-75	$100,000	New Apt. Bldg.[1]	50 Yrs.	85%/60%	200DB/150DB	$4,000/$2,880[4]
1-1-75	50,000	Used Warehouse[2]	20 Yrs.	(N/A)	SL/SL	2,500/2,500
1-1-75	100,000	New Apt. Bldg.[3]	50 Yrs.	75%/85%	150DB/200DB	3,000/3,880[5]

1. New Residential rental
2. Used property not residential rental
3. New property not residential rental
4. Property not residential rental this year ('76) [fails to meet gross income test] so rate is limited to 150% DB.
5. Property now qualifies as residential rental and qualifies for 200% DB even though 1975 used 150% DB.

F. Rehabilitation Expenditures
  1. Qualified expenditures can be depreciated over 60 months using straight line method and no salvage value.
    a. Expenditures must be:
      i. Incurred after 7/24/69 and before 1975
      ii. Capital expenditures having at least a 5 yr. useful life
      iii. To rehabilitate an existing building for low-income rental housing
      iv. May not exceed $15,000 per dwelling unit
      v. In excess of $3,000 for each unit over 2 consecutive years including the current year.

b. These rules do not apply to facilities if over half of the units are rented on a transient basis (normal rental period less than 30 days).

c. The election is made by attaching a statement to the return for the first year the special deduction is used.

d. For later years for which a deduction is claimed, an information statement is attached to the return.

G. Component Depreciation

1. Depreciable property may be accounted for by treating each component of the property as an individual account. A faster write-off of the components may be obtained as compared to the shell of the building.
2. In the case of new property where you are the first user, the components of a building, such as wiring, plumbing, roof, or flooring may be separately accounted for and separately depreciated.
3. Used property: component method can be used only if the cost of the property is properly allocated to various components and useful lives are assigned based on the condition of such components at the time of acquisition.

NOTE: If you elect the Class Life Asset Depreciation Range System for such building, you may not use component depreciation for such property. (The class life is already based on an average of the component lives and the life of the shell; plus, a shorter life of up to 20% may be used.)

Suggested Teaching Strategy

Each family should be provided with a copy of IRS Publication 334, Tax Guide for Small Business. A C.P.A. or other competent tax practitioner might be utilized in the presentation of this unit.

In most instances it will be difficult for you to get families to bring their depreciation schedules to class with them even though that is the most valuable and appropriate manner of teaching this unit. Although many businesses will have this work done by a service agency, it is important that they understand the basic reasons and means of calculating depreciation.

Elicit from families what they think the purpose of depreciation is. Illustrate how values of property decline with various kinds of depreciation methods. Point out how the selection of a depreciation method can be used to regulate net income to the business and the importance of depreciation method selection in long range business planning.

Discuss the basis for depreciation (II) and utilize appendix A. Discuss Useful Life (III), Salvage Value (IV), Additional Depreciation (V), and Methods (VI) utilizing appendices B and C. Briefly cover Assets Bought or Sold During the Year (VII). Real Estate Depreciation (VIII) may be covered if applicable to the class. Additional information on this topic is included in Appendix D if needed for the presentation.

KEY QUESTION 2. What is the importance and use of Investment Credit?

INVESTMENT CREDIT

I. Direct credit against tax liability based on the cost of "Sec. 38" property acquired during the year.

A. Basis of computation - A portion or all of the cost or basis will be a qualified investment based on the expected useful lives:

1.	7 or more years	100% of investment qualifies
2.	5 & 6 years	66 2/3% of investment qualifies
3.	3 & 4 years	33 1/3% of investment qualifies
4.	Less than 3 years	property does not qualify

B. Credit computation

1. 10% of the qualified investment (11% for corporations available as explained below)
    a. 10% rate is temporary for 1975 & 1976
2. Limitation of credit
    a. May not exceed $25,000 of tax liability plus 50% of tax liability in excess of $25,000 (Married filing separate base this limit on $12,500 rather than $25,000)
    b. Total credit may not in any case exceed tax liability

C. Effect on depreciation

1. May still use the class life ADR system of depreciation
2. May still deduct the additional first-year depreciation
3. Does not reduce the basis in the property

II. Qualifying Property

A. Investment credit property (Section 38 property) must:

1. Be depreciable (New or used)
2. Have a useful life of at least 3 years
3. Be placed in service by the taxpayer during the tax year for use in the taxpayer's trade or business or for the production of income. It can be the year:
    a. Depreciation begins, or
    b. In which the property is placed in a condition or state of readiness for service.
4. Be tangible, personal property or other tangible property (except buildings or their structural components) if it is used as an integral part of:
    a. Manufacturing
    b. Production,
    c. Extraction, or
    d. Furnishing transportation, communication, electrical energy, gas, water, or sewage disposal services
5. Be used in the U.S. or its possessions (with some exceptions)

B. Leased equipment can qualify for investment credit if:

1. The owner elects to pass the credit on to the lessee, and
2. The property is new to both the owner and to the lessee

III. Non-Qualifying Property

A. Property used primarily for lodging

1. Includes most property used in the operation of an apartment house, except:
   a. coin-operated vending machines, washing machines & dryers
   b. non-lodging commercial facilities, such as tangible personal property in a drug store or restaurant situated in an apartment building or hotel, if they are available to persons not using the lodging facilities
      i. NOTE: Property used by a hotel or motel that primarily serves transient guests is not considered property used primarily for lodging.

B. Used property acquired from a related person, which includes:

1. Members of the immediate family
2. An individual and a corporation of which more than 50% of value of the outstanding stock is owned by that individual
3. Certain corporations of which more than 50% of the value of outstanding stock of each is owned by the same individual
4. A trust fiduciary and a corporation of which more than 50% in value of the outstanding stock is owned by the trust or by the grantor of the trust
5. The grantor and fiduciary, and fiduciary and beneficiary, of any trust

IV. Examples of qualifying & non-qualifying property

A. Qualifying - Drain tile
- Grain storage bins
- Paved barnyards
- Silos
- Storage facilities
- Water wells
- Vending machines
- Fences used to confine livestock
- Display racks & shelves
- Office equipment
- Orchards & groves
- Production machinery
- Transportation equipment
- Wall-to-wall carpeting

B. Non-qualifying - Barns
- Apartment houses
- Trailer park launderettes
- Paved parking areas
- Stores
- Warehouses

V. Tax Reduction Act of 1975

A. Major changes

1. Temporary rate increase to 10% for property acquired after 1/21/75 and before 1/1/77 AND placed in service before 1/1/77

2. Corporations may obtain 11% investment credit if the additional 1% is used to finance an employee stock ownership plan

   a. Plan must be in writing & designed to invest primarily in employer securities
   b. Plan may be in form of stock bonus, stock bonus & money purchase or profit sharing, etc.
   c. Plan must be funded by transfers of employer's securities (or money to buy such securities) having a total value of 1% of the corporation's qualified investment for the year.
   d. Amount transferred must be allocated to each participant
   e. Each participant must receive a non-forfeitable right to any stock allocated to the account
   f. No distributions from the account can be made before the end of a 7 year period beginning with the first month following the month the stock was first allocated to a participant's account
   g. Employee must be able to direct the plan as to how the stock allocated to the account should be voted

3. Temporary increase in used Sec. 38 property to $100,000 for 1975 and 1976 (reverts to $50,000 after 1976)

4. Advance credits for "progress payments"

   a. Overcomes the long lead time in constructed property & the resultant delay in claiming the credit
   b. General election applies to years ending after 12/31/74 whereby qualified investment may be increased by expenditures on "progress expenditure property"
      i. Election made by attaching statement to that effect to tax return
   c. Qualifying property
      i. Normal construction period of 2 or more years
      ii. Useful life of 7 or more years anticipated
      iii. Election is binding for later years
   d. Construction period begins on latest of
      i. Date physical construction began
      ii. First day of the first taxable year to which election applies, or
      iii. Jan. 22, 1975
   e. Construction period ends on the date the property is expected to be available to be placed in service
   f. NOTE: Capitalized depreciation on construction assets is not eligible for advance credit
   g. Phase-in Rule = the progress payments rule is being phased in over a 5 year period at the rate of 20% per year
      i. 20% of progress payments in 1975 would qualify
      ii. In 1976 40% of qualifying progress expenditures would qualify PLUS 20% of the 1975 payments
      iii. In 1977 the percentages are: 60% for 1977 payments and 20% each for the 1975 and the 1976 payments

- h. Pro-Rata Rule - Further assumes that progress does not happen any faster than ratably over the normal construction period
  - i. Faster progress may be claimed, however, if there is clear & convincing evidence to that effect

VI. Carrybacks & Carryovers

A. An unused credit can generally be carried back 3 years and carried forward 7 years

B. Unused credit from 1970 & prior years has a 10 year carryover period

C. Unused credit from 1970 & prior years must be used prior to credit for the current year

D. Credit for current year is applied next

E. Post-1970 carryovers are applied next in order (subject of course to the limitation based on tax liability for the current year)

F. The Tax Reform Act of 1971 limited the amount that could be claimed in 1971 as a carryover or carryback credit to 50% for a calendar year taxpayer (other than calendar year taxpayers = 20% plus 6% per month in tax years after August 15, 1971)

G. Carrybacks & carryovers to 1969 & 1970 were limited to 20%

H. Net Operating Loss Effect - For tax years ending after 7/31/67 an unused credit created by a NOL is first carried back 3 years and then carried forward 7 years (previously a credit released by a NOL could be carried forward only)

VII. Recapture

A. Generally, if property on which investment credit has been previously claimed is disposed of prior to the end of the estimated useful life previously considered, some or all of the investment credit must be recaptured in the year of disposal

1. Disposals not triggering recapture:
   - a. Transfer because of death
   - b. Change in form of organization
   - c. Revocation of Sub-chapter S election for corporations

Suggested Teaching Strategy

The material above is a lengthy treatment of the subject. Each instructor will have to determine how much of the material he/she needs to use for a particular class. The minimum that should be covered in this area is found in sections I and II. The additional information included is a complete summary of investment credit and should allow the instructor to answer most questions posed by students.

Part IV. Summary

A. It is important for the business family to have an understanding of depreciation of capital assets even though a service agency may be employed to do this task.

B. Control of depreciation as a large business expense item can have a significant effect on business profits.

Part V. At-The-Business Instruction

Review the procedures for entering items in the depreciation schedule. If not already complete, assist in completing the beginning of year entries from income tax records. Illustrate how new or traded items are entered on the depreciation schedule. Show how the depreciation schedule can be used to arrive at the annual cost of ownership.

Part VI. Resources

Chalkboard, Chalk and Eraser
SBA Transparency No. 105
Transparencies of Appendices A, B, and C
Family Copies of IRS Publication 334

Part VII. References

1. Agricultural Extension Service, Office of Special Programs, Farm and Individual Income Tax Short Course, IRS Workbook, Univ. of Minn., 1975.

2. The Ideal System Company, Bookkeeping and Tax Record for Merchants, Berkeley, 1972.

3. Internal Revenue Service, U.S. Department of the Treasury, Fundamentals of Tax Preparation--College Level, Publication 796, Washington, D.C., U.S. Government Printing Office, Revised January 1973.

4. Internal Revenue Service, U.S. Department of the Treasury, Guidelines for Depreciation Schedules, Washington, D.C., U.S. Government Printing Office, 1973.

5. Internal Revenue Service, U.S. Department of the Treasury, Tax Guide for Small Business 1973 Edition, Publication 334, Washington, D.C., U.S. Government Printing Office, Revised October 1972.

6. Niswonger, Rollin C. and Phillip E. Fess, Accounting Principles, 10th Edition, Cincinnati, South-Western Publishing Co., 1969.

Part VIII. Appendices

A. Sample Depreciation Computations

B. Methods of Depreciation

C. Depreciation Under Various Methods

D. Real Estate Depreciation

Appendix A

SAMPLE DEPRECIATION COMPUTATIONS*

A. Equipment Traded In (Old)		
Cost of Old Equipment		$4,000
Accumulated Depreciation at End of Preceding Year	$2,000	
Depreciation for Current Year	500	2,500
Book Value at Date of Exchange		$1,500
B. Equipment Acquired (New)		
Price of New Equipment		$5,000
Trade-In Allowance of Old Equipment		2,000
Cash Paid (Boot)		3,000
C. Gain Recognized		
Trade-In Allowance on Old Equipment		2,000
Book Value of Old Equipment		1,500
Gain on Exchange		$ 500
D. Two Methods of Computing the Tax Basis or Cost of the New Equipment		
1. Price of New Equipment		$5,000
Less: Unrecognized Gain on Exchange		500
Cost of the New Equipment		$4,500
2. Book Value of Old Equipment		$1,500
Boot Given (Cash Paid)		3,000
Cost of the New Equipment		$4,500

---

*Niswonger, Rollin C. and Phillip E. Fess, Accounting Principles, 10th Edition, Cincinnati, South-Western Publishing Co., 1969.

Appendix B

METHODS OF DEPRECIATION

Straight Line, Declining Balance and Sum of the Years Digits

1 Asset Group or Name	2 Date Acquired	3 Cost or Other Basis	4 Salvage Value	5 Depreciable Value	6 Accumul. Deprec to Last Year	7 Deprec. Value 5-(6+10)	8 Method	9 Life or Rate (%)	10 Current Deprec.
Ford Pickup	1/1/72	$4,000	$ 500	$3,500	$1,400	$1,400	S.L.	5 Yrs. 1 $700 2 700 3 700 4 700 5 700	$ 700
Ford Pickup	1/1/72	$4,000	$ 500	$4,000	$2,560	$ 864	D.B.	40% 1 $1600 2 960 3 576 4 346 5 212	$ 576
Ford Pickup	1/1/72	$4,000	$ 500	$3,500	$2,100	$ 700	S.Y.D.	3/15 1 5/15 2 4/15 3 3/15 4 2/15 5 1/15	$ 700 $1,155 945 700 455 245

Appendix C

DEPRECIATION UNDER VARIOUS METHODS

Cost of Item: $10,000; Life: 7 Years

Year		Straight Line	Declining Balance 200%	Sum of Years Digits	Declining Balance 150%	Declining Balance 125%
Additional 1st Year		$2,000	$2,000	$2,000	$2,000	$2,000
First Year Ordinary		1,143	2,286	2,000	1,714	1,428
Total Deprec.	1st Year	$3,143	4,286	4,000	$3,714	$3,428
	2nd Year	1,143	1,632	1,714	1,346	1,173[c]
	3rd Year	1,143	1,166	1,429	1,058[b]	964
	4th Year	1,143	833[a]	1,143	832	791
	5th Year	1,143	595	857	653	650
	6th Year	1,143	425	571	513	534
	7th Year	1,142	304	286	404	439
Total		$10,000	$9,241	$10,000	$8,520	$7,979
Unrecovered Cost		--	759*	--	1,480*	2,021*

---

*Depreciation would continue after the 7th year at the same percentage of remaining value until salvage value is reached.

[a] If the depreciation method were changed to straight line after the fourth year, $694 of depreciation would be taken each of the next 3 years. The entire cost would then be recovered.

[b] If depreciation were changed to straight line after the third year, $971 would be taken each of the 4 years and the entire cost would be recovered.

[c] If depreciation were changed to straight line after the second year, $1,080 would be taken each of the next five years and the entire cost would then be recovered.

Appendix D

REAL ESTATE DEPRECIATION

I. Class Life Asset Depreciation Range System

A. Generally known as ADR, this is an offshoot of the depreciation guidelines in Revenue Procedure 62-61. ADR is intended to keep conflict over individual lives at a minimum and to liberalize depreciation rates.

1. The term useful life is not used (use "asset depreciation period" instead) because a depreciation period can be shorter than the actual useful life.
2. Troublesome reserve ratio test is discarded
3. Taxpayer does not have to justify his retirement and replacement policies.
4. A depreciation period selected for an asset cannot be changed by either the taxpayer or the IRS during the remaining period of use of the asset.
5. Election is annual for assets placed in service that year.
   a. If election is made, it must generally apply to all additions of eligible property placed in service during the taxable year of election.

B. Eligible Property

1. Property for which an asset guideline class and period are in effect for year of election (Revenue Procedure 72-10).
2. The property is either Sec. 1245 property (as defined in Sec. 1245(a)(3)) or Sec. 1250 property (as defined in Sec. 1250(c)), both new and used, AND
3. The property is first placed in service after 12/31/70.

C. Excluded Eligible Property

1. Certain property that is otherwise eligible may be excluded from the election (e.g. Certain Sec. 1250 property having a shorter useful life under the reserve ratio test of Rev. Proc. 62-21).

D. Definition of ADR terms:

1. "Asset guideline class" - a category of assets for which a separate asset guideline period is in effect for the taxable year.
2. "Asset depreciation range" - a period of years within each guideline class which extends from 80% to 120% of the asset guideline period established for the assets in such class.
3. "Asset depreciation period" - the period selected from the asset depreciation range.
   a. If no range is in effect, this would be the asset guideline period as shown in Revenue Procedure 72-10.
   b. The asset guideline period in effect on the last day of the taxable year controls.

Appendix D (Cont.)

4. "Closed-end vintage account" - an account established each year for each separate asset guideline class.
    a. "Vintage" - the year in which the assets in that account are first placed in service
    b. "closed-end" - no additions may be made after the close of the taxable year (unless a misclassification has been made).
5. "First placed in service" rule - (taken from I.T. Regs. 1.46-3(d)(1) dealing with investment credit) refers to that time when the asset is 'first placed in a condition or state of readiness and availability for a specifically assigned function, whether in the taxpayer's trade or business, in the production of income, in a tax-exempt activity, or in a personal activity.'
    a. The date on which depreciation begins 'under a convention' used by the taxpayer has no bearing on the date on which the property is first placed in service.
    b. Operational equipment acquired during the year may be in a 'state of readiness and availability' even though it is not practical to use such equipment for its specifically assigned function in the taxpayer's business until the following year.

E. Computation of depreciation allowance

1. Use depreciation method as selected.
2. Use rate based on the asset depreciation range selected.
3. Compute without regard to salvage
    a. NOTE: Vintage account cannot, however, be depreciated below a reasonable salvage value.

F. Repair allowance

1. May be elected on selected guideline classes and applies only to expenditures whose status as deductible repair expense or capital expenditure is ambiguous.
2. With this election an amount up to the repair allowance percentage may be currently deducted and the balance must be capitalized.
3. Expenditures clearly capital in nature must be capitalized.
4. The percentage in effect at year-end controls but cannot be less than that on the first day of the year.

G. Retirement

1. Extraordinary
    a. 1250 property
    b. 1245 property retired as a result of fire, storm, shipwreck, or other casualty
    c. 1245 property retired because of cessation of the business & if the unadjusted basis of the assets retired during the year exceeds 20% of unadjusted basis of the account before the event.

Appendix D (Cont.)

2. Ordinary - (any retirement that is not extraordinary)
    a. No loss is recognized, unless a vintage account has an adjusted basis and the last asset or all of the assets in the vintage account are retired.
    b. Gain is generally not recognized. All proceeds from ordinary retirements are added to the depreciation reserve of the related vintage account.
    c. Salvage value of a vintage account must be reduced as of the beginning of the year by the excess of:
        i. the depreciation reserve (after depreciation for the year) over
        ii. the unadjusted basis of the account less salvage value of the account before reduction.
    e. The unadjusted basis of the retired asset is not ordinarily removed from the vintage account (the previously unrecovered basis of the retired asset will be recovered through depreciation taken for the vintage account).

II. Guideline Class Life System

A. System under which taxpayer can choose a class life for the post 1970 depreciation of assets placed into service before 1971. (This system has class lives only, no ranges.)

1. The class lives in Rev. Proc. 72-10 are to be used in CLS.
2. CLS election may be made separately for each class of assets. (It is not necessary to be made for all classes of assets as is necessary under ADR.)
3. In computing depreciation, the salvage value is not taken into account, but may not depreciate below zero.
4. Salvage under CLS - either Net or Gross, at taxpayer's election:
    a. Gross salvage - the amount estimated to be realized from a sale or disposition of the asset when it is no longer useful in the taxpayer's business.
    b. Net salvage - gross salvage less removal, dismantling, demolition or similar costs.
    c. Either one may be reduced by up to 10% of unadjusted basis (Sec. 167 (f) IRC)
5. Election is annual.
6. Must maintain books adequate to identify the unadjusted basis, reserve and salvage value for each account in each class.

III. Regulations for ADR & CLS

A. ADR regs. = 1.167 (a)-11
B. CLS regs. = 1.167(a)-12

IV. Revenue Procedure 72-10 = Establishes guideline periods called for in Sec. 167(m) of the Internal Revenue Code

A. Supplemented and amended by the following Revenue Procedures:

73-2 73-3 73-23 73-24 73-25
73-26 73-27 73-28 73-30 74-28
74-29 74-30 74-37 74-50

Appendix D (Cont.)

SAMPLE - GUIDELINE PERIODS ESTABLISHED BY REV. PROC. 72-10

Asset guide-line class	Description of assets included	Asset depreciation range (in years)			Annual asset guide-line repair allow-ance percentage
		Lower limit	Asset guide-line period	Upper limit	
65.1	Shelter, space, and related building services for manufacturing and for machinery & equipment repair activities				
65.11	Factories		45		
65.12	Garages		45		
65.13	Machine shops		45		
65.14	Loft buildings		50		
65.2	Building services for the conduct of wholesale and retail trade, includes stores and similar structures		50		
65.3	Building services for residential purposes:				
65.31	Apartments		40		
65.32	Dwellings		45		
65.4	Building services relating to the provision of miscellaneous services to businesses & consumers				
65.41	Office buildings		45		
65.42	Storage:				
65.421	Warehouses		60		
65.422	Grain elevators		60		
65.43	Banks		60		
65.44	Hotels		40		
65.45	Theaters		40		
70.0	Services: Includes assets used in the provision of personal services such as those offered by hotels and motels, laundry and dry cleaning establishments, beauty and barber shops, photographic studios, and mortuaries. Includes assets used in the provision of professional services such as those offered by doctors, dentists, lawyers, accountants, architects, engineers, and veterinarians. Includes assets used in the provision of repair and maintenance services and those assets used in providing fire and burglary protection services. Includes equipment or facilities used by cemetery organizations, news agencies, teletype wire services, plumbing contractors, frozen food lockers, research laboratories, hotels, and motels, (except office furniture and fixtures)	8	10	12	6.5

Appendix D (Cont.)

SAMPLE - GUIDELINE PERIODS ESTABLISHED BY REV. PROC. 72-10

Asset guide-line class	Description of assets included	Asset depreciation range (in years)			Annual asset guide-line repair allow-ance percentage
		Lower limit	Asset guide-line period	Upper limit	
79.0	Recreation and Amusement: Includes assets used in the provision of amusement or entertainment services on payment of a fee or admission charge, as in the operation of bowling alleys, billiard and pool establishments, theaters, concert halls, amusement parks, and miniature golf courses. Does not include such assets which consist primarily of specialized land improvements or structures, such as golf courses, sports stadia, race tracks, ski slopes, or buildings which house bowling alleys.....................................	8	10	12	6.5

Appendix D (Cont.)

ALLOWABLE RATES OF REAL ESTATE DEPRECIATION

Type of Property	Date Acquired	Maximum Rate of Depreciation
New Tangible Personal Property	Before 1/1/54. . . .	Declining balance @ 150%
	After 12/31/54. . . .	Declining balance @ 200%
Used Tangible Personal Property	Any time	Declining balance @ 150%
New Real Property	Before 1/1/54. . . .	Declining balance @ 150%
	After 1/1/54 and before 10/10/66. .	Declining balance @ 200%
	From 10/10/66 through 3/9/67. . .	Straight line unless the cost of the asset is $50,000 or less. Then the maximum rate is delining balance @ 200%.
	From 3/10/67 through 7/24/69. .	Declining balance 2 200%
	After 7/24/69. . . .	Declining balance @ 150%
New Residential Rental Property	Before 7/25/69. . . .	Declining balance @ 200%
	After 7/24/69. . . .	Straight line
Used Real Property	Before 7/25/69. . . .	Declining balance @ 150%
	After 7/24/69. . . .	Straight line
Used Residential Rental Property	Before 7/25/69. . . .	Declining balance @ 150%
	After 7/24/69	
	Life 20 yrs. or more.	Declining balance @ 125%
	Life less than 20 yrs..	Straight line

Year I--Unit 12

INCOME TAX MANAGEMENT

Part I. Student Objectives

A. Given examples of income fluctuation, varying deductions and sales or trades of assets as they affect income tax liability, the student will be able to explain the value of managing income to legally minimize income taxes.

B. Given an income tax estimating worksheet and an explanation by the instructor for completing it, the student will be able to complete the estimating worksheet for his/her business.

Part II. Transition of Units

The previous unit covered the subject of depreciation. Various methods of depreciation and their effects on long range business planning were discussed.

This unit will deal with income tax management, looking at those items a person can control to minimize taxes. Income tax estimating will also be covered.

The following unit will cover end of the year inventory with emphasis on the various methods used to value that inventory. Importance is placed on the value of accurate year-end inventories.

Part III. Lesson

Attention Focuser

State, "Taxes are what we pay for civilized society" according to Justice Oliver Wendell Holmes. However, only the amount required by the law is due as a liability. Ask the class for their reaction to this.

KEY QUESTION 1. How can income taxes be legally held to a minimum?

A. Try to avoid wide fluctuations in income from year to year. A high increase in income in a certain year may throw the business operator into a higher tax bracket. It is to the businessperson's advantage to increase his/her income over a period of years rather than to increase the income all in one year.

1. Example:

Income and Income Tax Liability for Two Business Families***

	Net Income First Year	Net Income 2nd Year	Average Income	2-Year Tax
Jones Family (2 children)	$ 0	$8,600	$4,300	$682*
Smith Family (2 children)	4,300	4,300	4,300	0**

* Using the standard deduction and tax rate for 1972

**Using low income allowance for 1972

***Income Tax Management for Farmers

2. An attempt should be made to maintain income that will at least equal deductions and exemptions. This will allow business operators to continue to use their deductions and exemptions to the fullest extent. Since there are no carry forwards or backwards, the deductions and exemptions are forever lost if the business operator does not have the income that will at least cover these items.

B. Increasing deductions to legally save tax:

1. Plan personal expenditures. In a year of high income it may be beneficial to pay off high medical expenses in one year that may otherwise be paid off in two years.

2. Some expenditures which relate to the business can be deducted in the year they occur. These expenses include small tools, minor repairs and building painting. If the business operator plans on making these types of expenditures in the near future, it may be to his/her benefit to do it during the year that his/her income may be quite large. These types of expenditures will help reduce taxable income and thus place him/her in a lower tax bracket.

3. An important category that is often missed is the recording of losses of merchandise because of spoilage, breakage and theft. This category can be filed on Schedule C and is a legitimate business deduction. This again will help to reduce the business operator's tax liability.

4. Be sure to accurately record organization dues, bank service charges, business trips and special work clothing associated with the business activity.

C. Tax management of sales or trades of assets, personal and tangible property: when selling capital assets it may be beneficial to use the installment sale method instead of receiving the money in one lump sum. This helps to postpone the tax liability until later years. It also helps to even the income so that the business operator is not forced into a high tax bracket in a certain year because of the sale of a large asset.

D. 1975 Income Tax -- Final Reminders (See Appendix of Year II--Unit 1)

E. Tax management tips:

1. Some people find it helpful to establish charge accounts with businesses that they buy from regularly. This helps to prevent the omission of many small expenses that otherwise are paid for by cash and are not recorded.

2. It is generally advisable to pay for as much as possible by check. This gives the businessperson a permanent record of his/her purchases as well as evidence in the event that an audit is performed on his/her tax return. It also is good common sense in that the business operator can construct business estimates much easier if there is an accurate record to work with.

3. The significance of additional first year depreciation, investment credit, depreciation methods, etc. should again be stressed in this unit. These items can make a big difference in the business operator's yearly tax liability.

Suggested Teaching Strategy

Cover the points listed under A through E of Key Question 1 remembering that the main objectives are to demonstrate how wide fluctuations in income can result in higher taxes and to show how income can be leveled over a number of years.

Under the points listed in E3 the instructor may want to refer to Unit 11 (the previous unit) for specific examples. In addition the following unit on inventories (Unit 13) might be useful in relating the method of valuation to tax liability.

In preparing for this unit, the instructor may find Income Tax Management for Farmers very useful. The application of tax law to a small business is the same as it is for a farm. Even though this publication might be easily obtained through the University of Minnesota Extension Service, it should not be given to the class. The instructor should use this publication to prepare a summary of the important points to be covered in class and provide duplicated copies of this summary to class members. Appropriate small business terminology should be used in this summary -- not farm terminology. This summary can then be followed by the class while the instructor explains the points and enlarges on examples used. If class discussion is encouraged, this procedure will be both interesting and worthwhile.

KEY QUESTION 2. How can taxable income be estimated before the end of the year?

A. Income Tax Estimate Worksheet. It is necessary to consider this item in late October or early November to allow time for adjustment in purchases or sales which may help to minimize taxes.

B. Why returns are audited and what is checked. (SBA, Taxation: A Key Factor In Business)

1. Large deductions, mistakes, etc.
2. Methods of handling sales and purchases
3. Large or unusual items of expense
4. Large or unusual cash transactions
5. General journal entries
6. The minutes of meetings if it is a corporation
7. Travel and entertainment expenses
8. Records pertaining to inventories

C. Three cautionary rules (SBA, Taxation: A Key Factor In Business)

1. Use checkbook
2. Don't pay by cash (unless absolutely necessary)
3. Keep accurate records

Suggested Teaching Strategy

Distribute and discuss the income tax estimate worksheet from the appendix. It may not be appropriate to complete the worksheet in class.

The consequences of delaying sales or making advanced purchases should be thoroughly discussed. It should be emphasized that the amount of income taxes paid over a period of years is the determining factor. Any adjustments that are to be made must be in line with sound business management practices if savings are to result.

Points listed under B and C can be used as cautionary reminders for the students as they approach the end of the year. Use SBA transparencies Nos. 95, 96, and 97.

Allow a reasonable amount of time for a general class discussion on taxes at the end of this unit. Items of discussion may deal with the filing of tax estimates, income averaging, etc.

Part IV. Summary

A. The small business family can usually legally minimize income tax payments by avoiding great fluctuations of income from year to year.

B. The ability to estimate income taxes prior to the end of the taxable year is a valuable tool in tax management.

Part V. At-The-Business Activities

Assist families in completing an estimate of their income tax liability. Discuss with them adjustments that could be made in delayed sales or early purchases to affect income level and final tax liability.

Part VI. Resources

Chalkboard, Chalk and Eraser
Overhead Projector
Transparency and Handouts of "Income Tax Estimate Worksheet", Appendix A
Handouts of IRS Publication 334, Tax Guide for Small Business
SBA Transparencies Nos. 95, 96, and 97

Part VII. References

A. References Cited

1. Agricultural Extension Service, University of Minnesota, Income Tax Management for Farmers, North Central Regional Publication No. 2, St. Paul, Revised 1974.

2. Small Business Administration, Taxation: A Key Factor in Business Decisions, Administrative Management Course Program Topic 8, Washington, D.C., U.S. Government Printing Office, 1966.

B. Other References

1. The Ideal System Company, Bookkeeping and Tax Record for Merchants, Berkeley, 1974.

2. Internal Revenue Service, U.S. Department of the Treasury, Fundamentals of Tax Preparation -- College Level, Publication 796, Washington, D.C., U.S. Government Printing Office, Revised 1974.

3. Internal Revenue Service, U.S. Department of the Treasury, Tax Guide for Small Business 1974 Edition, Publication 334, Washington, D.C., U.S. Government Printing Office, Revised 1974.

Part VIII. Appendices

A. Income Tax Estimate Worksheet

Appendix A

INCOME TAX ESTIMATE WORKSHEET

		AMOUNT TO DATE	ESTIMATED REST OF YEAR	ESTIMATED YEAR'S TOTAL
RECEIPTS:				
1. Total cash received (Sales & Cash Rec.)		____	____	____
2. Paid for merchandise (Payments sec) (Subtract)		____	____	____
3. Gross income		____	____	____
BUSINESS EXPENSES:				
4. Payroll, employees total earnings	____			
5. Rent	____			
6. Repairs to equipment, etc	____			
7. Operating supplies	____			
8. Taxes and licenses	____			
9. Interest	____			
10. Telephone, light, power, heat, water	____			
11. Advertising	____			
12. Insurance	____			
13. Gas, Oil, Grease	____			
14. Legal	____			
15. Other expenses	____			
16. Contributions and other deductions	____			
17. Total cash business expenses	____		____	____
18. Depreciation	____		____	____
19. Total deductions (item 16 + item 17)		____	____	____
20. Self employment business income (item 4 less item 18)		____	____	____
21. Net taxable gain from schedule D		____	____	____
22. Taxable non-business income		____	____	____
23. Adjusted gross income (item 19 + 20 + 21)		____	____	____
24. Less larger of 16% of item 22 (limit $2600)* or itemized deductions**	____		____	____
25. $750 x ____ personal exemptions***	____		____	____
26. Total non-business deductions & exemptions		____	____	____
27. Taxable income (item 22 less item 25)		____	____	____
28. Estimated income tax (calculated from applicable tax computation table or rates)		____	____	____
29. Estimated self employment tax (item 19 x current rate)		____	____	____
30. TOTAL TAX (item 27 + item 28)		____	____	____
31. Less credits: allowable investment credit & carryover, gas tax, income tax withhold & estimated tax paid		____	____	____
32. Estimated tax due (item 29 less item 30)		____	____	____

---

* Limit for 1975: see current tax regulation for subsequent years.

** Use itemized deductions if larger

***Exemption for 1975: see current tax regulation for subsequent years.

Year I--Unit 13

THE END OF THE YEAR INVENTORY

Part I. Student Objectives

A. Given an illustration showing the effect of inventory values on net profit and an opportunity to discuss the subject, the student will be able to list and explain the values of accurate inventories.

B. Given examples of the F.I.F.O., L.I.F.O. and weighted average inventory methods, and an opportunity to discuss the subject, the student will be able to select the appropriate type of method for the business.

C. Utilizing a step by step discussion method concerning end of the year inventory tasks presented by the instructor, the student will be able to accurately complete those portions of his/her record dealing with end of the year inventories.

Part II. Transition of Units

The previous unit dealt with income tax management and those particular items which can be controlled to minimize taxes. Income tax estimating was covered as a tax management tool.

This unit covers the value of accurate inventories, types of inventories and their application to year end inventories, and business management.

The following unit will cover closing the records for analysis and will discuss the necessary closeout forms. The unit will point out that the real value of business records is realized through analysis and study.

Part III. Lesson

Attention Focuser

Ask each business family represented in class to write a brief description of an inventory problem in their business. Have a few of the students share their concerns with the entire class and attempt to find solutions for the problem through this brain-storming technique.

KEY QUESTION 1. How valuable are accurate inventories?

A. Accurate inventories are the only basis for measuring the change in value of the company's inventory value from the beginning to the end of the year.

Example:	If sales were	$57,500
	and expenses were	43,000 (deprec & inter, not owner's sal)
	Apparent net profit	$14,500

A look at his/her assets indicates a growth of $2,100 plus an added new line of merchandise increased inventory value $5,975, for a total increase in assets of $8,075. This $8,075 plus "apparent net profit" of $14,500 shows the actual gain of $22,575. Inaccurate inventories of merchandise and/or capital assets would not reflect the correc[illegible] results of business operations.

B. Accurate inventories offer the owner-manager the opportunity to evaluate his/her purchasing procedures to learn:

1. How material and service costs compare with those of competitors.
2. Whether the investment in inventory is too great.
3. The rate of the firm's inventory obsolescence.
4. Company losses from pilferage and spoilage.
5. How close he/she is to the goal of having the proper goods in the right quantities at the right time and place and at the right cost. (See pp. 112-124 in the SBA booklet, Managing for Profits.)

Suggested Teaching Strategy

Utilize SBA transparency No. 5 to lead off this question. Discuss the items listed above and show the example on the chalkboard. The SBA booklet, Managing for Profits (Chapter 6, pp. 111-125) gives some good case histories citing use of inventory data. These case histories should be summarized for class discussion. The instructor should also present some examples representative of class members' businesses that portray how changes in inventory value affect the profit or loss picture of a business.

KEY QUESTION 2. What are the types of inventories and how are they applied to the business?

A. Inventory types and methods

1. Physical inventory (detailed listing of the merchandise on hand)
2. Perpetual inventory (accounting records that continuously disclose the amount of the inventory)
3. Beginning of year inventory (detailed inventory of all business assets taken January 1 or the first day of the business year)
4. End of year inventory (detailed inventory of all business assets taken December 31 or the last day of the business year)

B. Inventory costing methods

1. F.I.F.O.
   - a. Most generally used
   - b. Need commissioner's permission to switch; based on the assumption that costs should be charged against revenue in the order in which they were incurred. Inventory remaining is assumed to be composed of the most recent costs. Refer to charts in the appendix.

2. L.I.F.O.
   Based on the assumption that the most recent costs incurred should be charged against revenue. Inventory remaining is assumed to be composed of the earliest costs. Refer to charts in the appendix.

3. Weighted average method
   Based on the assumption that costs should be charged against revenue on the basis of an average, taking into consideration the number of units acquired at each price. Refer to charts in the appendix.

Suggested Teaching Strategy

Utilize a transparency of the appendix item "Examples of Inventory Costing Methods," to illustrate points under B. Discuss items listed and give some examples of the use of the first-in, first-out, last-in, first-out, and weighted average methods of pricing and inventory control. Discuss with class members applications to their specific businesses. The instructor may find it worthwhile to review this subject content in a good accounting text prior to teaching this unit. Utilize SBA transparencies Nos. 103 and 104 with this question.

KEY QUESTION 3. How do you make and record inventories at the end of the year?

A. This portion of the unit is very closely related to Unit 4. It will be worthwhile to review some of the discussion on materials management. The instructor should again study Chapter 6 of the SBA publication, Managing for Profits.

B. Review steps in the inventory process.

   1. Physical count and verification with perpetual if used
   2. Pricing
   3. Total dollar amounts
   4. Obsolescence

C. End of Year Inventories

   1. Determine values to be used (refer back to Key Question 2)
   2. Steps in completing the inventory
      a. Total and reconcile Accounts Receivable Balance and Age
      b. Total and reconcile Accounts Payable
      c. Make a list of all purchases of depreciable assets such as autos, trucks, machinery and equipment and fixtures, building additions and improvements by amount paid
      d. List sales of above assets by types and amount for year
      e. List notes payable to banks and others--amount at beginning of year and amounts borrowed and paid during year
      f. Complete depreciation schedule (refer to c and d above)
      g. Personal Asset Inventory

Suggested Teaching Strategy

A portion of this class session will be a work session. Insure that all of the class members have whatever supplemental recordkeeping data they need for completing inventories. Some time will need to be spent explaining the recording of capital purchases on the depreciation schedule or appropriate inventory section. This portion of the unit also relates closely to Unit 11, "The Depreciation Schedule" and to Unit 12, "Income

Tax Management." Material from these units may be reviewed briefly with the class before going into Key Question 3 of this unit. Special attention should be called to the year-end inventory of liabilities. This included all money owed at the end of the year whether it is long-term, short-term, or unpaid bills and accounts. The importance of accuracy of all inventories should be stressed. Some of the work session will be a page-through of the various sections on inventories and explaining what is needed in each section, if a standard recordbook is being utilized.

Part VI. Summary

A. Accurate inventories of merchandise and assets are important in the determination of a realistic net profit for the business.

B. The several methods of determining inventory values have an important and varying effect on business profits.

C. End of the year inventories, like beginning of the year inventories, are essential for an accurate business analysis.

Part V. At-The-Business Instruction

Assist in making a complete year-end inventory. Special attention should be given to balancing the money borrowed--paid on debt--inventory of liability sections. Review the inventory controls and materials management policies of the business. Where appropriate, review inventory control and materials management topics that were discussed in class.

Part VI. Resources

Chalkboard, Chalk and Eraser
Overhead Projector
SBA Transparencies Nos. 103 and 104
Transparency of "Examples of Inventory Costing Methods"

Part VII. References

1. Commerce Clearing House, United States Master Tax Guide, Chicago, 1975.

2. Niswonger, Rollin C. and Phillip E. Fess, Accounting Principles, 9th Edition, Chicago, South-Western Publishing Company, 1965.

3. Simons, Harry and Wilbert E. Karrenbrock, Intermediate Accounting--Comprehensive Volume, 4th Edition, Chicago, South-Western Publishing Company, 1964.

4. Small Business Administration, Managing for Profits, by Harvey C. Krentzman, Washington, D.C., U.S. Government Printing Office, 1968.

5. Small Business Administration, Merchandise Control, Instructor's Manual, Topic 21, Washington, D.C., U.S. Government Printing Office, 1971.

6. Small Business Administration, Stock Control for Small Stores, by Edwin L. Harling, Small Marketers Aids No. 123, Washington, D.C., U.S. Government Printing Office, March, 1972.

Part VIII. Appendices

A. Examples of Inventory Costing Methods

Appendix A

EXAMPLES OF INVENTORY COSTING METHODS

January 1	Inventory	200 units @ $ 9.00	$1,800.00
March 10	Purchase	300 units @ 10.00	3,000.00
September 21	Purchase	400 units @ 11.00	4,400.00
November 18	Purchase	100 units @ 12.00	1,200.00
Available for sale during year 1,000			$10,400.00

FIFO December 31 300 units on hand

100 x 12 = 1,200
200 x 11 = 2,200
Cost of units $3,400

10,400
3,400
Cost of merchandise sold $7,000

LIFO December 31 300 units on hand

200 x 9 = 1,800
100 x 10 = 1,000
Cost of units $2,800

10,400
2,800
Cost of merchandise sold $7,600

Weighted Average--December 31 300 units on hand

10,000 ÷ 1,000 = $10.40 per unit

300 x $10.40 = $3,120

10,400
3,120
Cost of merchandise sold $7,280

Year I--Unit 14

CLOSING THE RECORD BOOK FOR ANALYSIS

Part I. Student Objectives

A. Utilizing a year's recordkeeping activity as a basis for discussion, the student will be able to justify through oral summarization that the real value of business records is realized through analysis and study.

B. Given copies of Small Business Data Forms 1, 2, and 2A, a copy of the "Supplementary Data Form F-10," and the opportunity to discuss them, the student will be able to state several necessary prerequisites for closing the record book for analysis.

C. Given the "Checklist For Closing A Business Account Book," the student will be able to accurately close the record book for analysis.

Part II. Transition of Units

The previous unit covered business inventories with special emphasis on the year-end inventory as a necessary prerequisite for closing out the record book.

This unit deals with closing the record book for analysis. Necessary preparations and closeout forms are covered. This unit points out that through analysis and study, the real value of business records is realized.

The following unit (Year II--Unit 1) will cover income, self employment and social security tax calculations.

Part III. Lesson

Attention Focuser

At the very beginning of the class, hand a road map to one of the students and state, "Plan a trip for me, will you?" After a few minutes of discussing other preliminary things with the class, come back to that student and ask: "Do you have that trip planned yet?" The student may comment that you didn't say where you were going; thus it was impossible to plan the trip. Use this to point out that accurate records properly analyzed may provide the road map to help the students reach their goals.

KEY QUESTION 1. How is the real value of business records realized?

Roadmap to Profits--Accurate Records

"one of the most vital of all business tools is the knowledge of and conformance to sound business and financial principles. Do not believe for a moment that this knowledge cannot be gained -- but, as in all things, you must first admit and recognize needs, and then work at it and strive for it, always with an open mind.

"The knowledge of how to read a balance sheet as well as a profit and loss statement--as you would read a compass or a road map--will prove a real guide and warning. It will help to prevent unsound business judgment and, very often, financial insolvency." (SBA, Financial Recordkeeping for Small Stores, by Ragan)

Suggested Teaching Strategy

Summarize the highlights of the year's recordkeeping activities and reaffirm the thesis of the first unit, that through analysis and study the real value of business records is realized. You might put the quote above on a transparency or write it on the board.

KEY QUESTION 2. What are the necessary prerequisites to closing the record book for analysis?

a. End of the year inventories
b. Completed depreciation schedule
c. Preparation of closeout information form
d. Complete and check summary section in record book

Suggested Teaching Strategy

Give each business family a copy of the Small Business Data Forms 1 and 2 and a copy of the Supplemental Data Form F-10. Review the major headings on these forms in a general way, using points a - d under this key question as your guide.

KEY QUESTION 3. Of what use is a checklist in closing the record book?

The check list for closing a record book has been designed to ensure that all necessary data are summarized for analysis. As some businesses may be using different record systems, it is important that everyone follow the one checklist.

Suggested Teaching Strategy

Give each business family a copy of the "Checklist for Closing a Record Book." This checklist will be reviewed annually at the analysis center and will be revised as required for analysis. With these possible revisions, additional closeout forms may be developed and added for the closeout procedure. Instructors should be sure they are using the latest edition of the checklist.

Have each class member follow this checklist for closing their record book or record system. Go over the checklist with the class and allow them to discuss areas where they anticipate problems. Allow some time for each business family to review the checklist in private discussion. In some instances the class may be allowed a work session on the closeout of the record book. This could occur if the class were willing to bring their records to class for preliminary closeout work.

Part IV. Summary

The accurate closing of the business record book is essential for the analysis and study of the business. The realization of the real value of business records comes through this process.

Part V. At-The-Business Instruction

The final closing sessions should be devoted to attaining the highest degree of accuracy possible with the business account. Follow a step-by-step precedure of closeout to assure that no important information is overlooked. The final closeout should include the completion of the closeout checklist. Accuracy and completeness are most important if analysis data are to be meaningful. Special attention to each item on the checklist will be critical where class members use a variety of recordkeeping systems.

Part VI. Resources

Chalkboard, Chalk and Eraser
Overhead Projector
Handouts of Small Business Management Data Forms 1, 2 and 2A
Handouts of Supplementary Data Form F-10
Handouts of Checklist For Closing A Business Account Book
Supply of Lined Paper and Pencils

Part VII. References

A. References Cited

Small Business Administration, Financial Recordkeeping for Small Stores, by Robert C. Ragan, Small Business Management Series No. 32, Washington, D.C., U.S. Government Printing Office, 1966.

B. Other References

1. Division of Agricultural Education, University of Minnesota, "Checklist For Closing A Business Account Book," (Mimeographed) St. Paul, 1974.

2. The Ideal System Company, Bookkeeping and Tax Record for Merchants, Berkeley, 1972.

Part VIII. Appendices

A. Supplementary Data Form F-10

B. Checklist for Closing A Business Account Book

C. Small Business Management Data Forms 1, 2, and 2A (in reduced form). They are available only through the Division of Agricultural Education, 130 Classroom Office Building, University of Minnesota, St. Paul, Minnesota 55108.

1.142

Supplementary Data Form
F 10, 1976

Appendix A

SMALL BUSINESS ANALYSIS
University of Minnesota
USOE Project 0733-5606

Name of business ______________________________

Address ______________________________ Phone __________

What year did you start your current business as a lessee? _____ As an owner? _____

School where enrolled ______________________________ Instructor __________

I. Members of family living at home during the year

		Age	Years of School Completed	Months Devoted to Business
Operator				
Spouse				
Other				
Family				
Members				

II. Prior Year Business Data

Note: The following information refers to the year prior to the first SBM analysis you received. If this is your first analysis it will refer to your 1974 business year data. If this is your second analysis it refers to your 1973 business year.

A. Was there any substantial change in the manner of determining quantities, costs, or valuations between opening and closing inventory during the prior business year? (See Note above.) _____ Yes _____ No. If "Yes", describe change.

____

____

____

____

B. Net profit or (loss) from business in prior business year (See Note above) as shown on line 21 of Schedule C. $__________.

III. Program Data

A. Approximate number of miles you travel (round trip) to SBM Class. _____ miles.

B. Number of SBM Classes attended in 1974 _____ and 1975 _____.

CHECKLIST FOR CLOSING A SMALL BUSINESS RECORD SYSTEM - SINGLE ENTRY

"Closing" the Small Business Record System is the term used in making the final entries in the book at the end of the year in preparation for a small business analysis. After the records system is closed, two forms are prepared for the analysis center: Data Sheet #1 is the "Inventory Data" and Data Sheet #2 is the "Income and Expense Data." The record system should be checked for completeness and accuracy prior to entering information on the different data sheets. Care should be taken that all figures used on these forms are taken directly and exactly from the business records.

It is not a difficult job to close a small business record system but it does take time. Missing information will probably be a more common deficiency than incorrect entries. For this reason, the following checklist has been prepared to help you check for the completeness of the account book. It is important to bear in mind that the business analysis will only be as accurate as the record information that goes into it.

Item Check 1

Page through the records of the business, scanning each section to see if the record appears complete. Start with the "Sales and Receipts" section. Make sure that the monthly, quarterly and year-end summaries are completed. If the business operator has the business departmentalized, check to see that the departmental figures are complete. Be sure to foot and crossfoot to ensure that the totals add up correctly.

Item Check 2

Proceed to the section containing "Purchases of Materials and Merchandise." Do precisely the same as in Item Check 1. Again check for departmentalization of purchases. This area is one where many people have a tendency to let their records slip. It is a very important area because merchandise purchases are probably one of the two major expenses that a small business incurs throughout the year.

Item Check 3

Proceed to the general section of expenses. (If the recommended chart of accounts has been utilized, this section will be easier to check.) This section is quite involved and contains numerous possibilities for errors and omissions. Again it is necessary to do a month by month check to be sure that the figures are correct. Check to be sure the business operator has correctly entered payments of sales tax paid, the employee deductions paid by the employer,discounts taken, rent paid, repairs and all other important categories. The utilities should be broken out into individual categories. These separate categories (telephone, electricity, heat and water) will be needed for accurately completing Data Sheet 2 of the computer forms. Also break down categories such as taxes and licenses, advertising and insurance, etc. which must also be separated for the data sheets. Be sure that the year end summary of expenses totals the monthly and quarterly figures.

Item Check 4

Check the business operator's payroll section to be sure that all pertinent figures are entered correctly. The payroll section figures should correspond exactly to the figures in the general expenses summary. Be sure to remind the business operator that W-2 Wage and Tax Statements are due out to their employees by January 15th. Also, be sure to check and see that bonuses, overtime and other compensations are correctly entered in the account book.

Item Check 5
If the business operator has accounts receivable, check to make sure that the postings are accurate, complete, and aged. Individually, it may be worthwhile to question the operator on his or her collection policies. Too many small businesses are quite lax concerning their collection methods. This area is one that should be approached with great care and caution. The area should be analyzed to be sure that the business operator is not being too lax and incurring unnecessary bad debts or too strict and losing good business because of not wanting to take some risk.

Item Check 6
Generally, small businesses will carry a flexible amount of accounts payable. Here again, is another area that should be analyzed carefully. Help the business operator establish an accounts payable aging schedule if he or she doesn't already have one. Many small businesses do not take advantage of discounts and terms from suppliers. A clue to this may come from the expenses area where a quick glance can tell you if the business operator does take advantage of discounts. Another place to check is the A/P Aging Schedule. It is an area that many people feel is not worth the effort, yet it has been proven to be an excellent way of cutting unnecessary expenses. In these times of inflationary pressure, many suppliers have gone to using discounts to help revitalize their cash flow positions. If the business operator has the available funds, a suggestion may be appropriate in this area.

Item Check 7
This is for special accounts such as loan and note records, bad debts, inventory accounts, proprietor's accounts, depreciation schedules and any other supporting accounts the business operator may have. They should all be checked for accuracy and completeness. Many business people let these accounts slide until the last moment. If possible, encourage them to continuously update these accounts. In the long run it is easier for them because they only have small amounts of work instead of a tremendous amount of paperwork at the end of the year.

Generally, the liability section of the records can be easily checked for errors or omissions. The general formula of: Beginning Inventory of Liabilities + Money Borrowed should equal Ending Inventory of Liabilities + Principal Paid on Debt. If the liabilities prove out then a simple cash check should be made of the entire record book. This cash check is simply a check of all income and all outgoes, Total Income (Business Income + All Other Income + Money Borrowed) should equal Total Cash Outgoes (Business Expenses + Payment on Debt + Family Living Expense or Proprietor's Draw).

Item Check 8
The final check should be the personal expenses. It is easy to check for accuracy but almost impossible to check for completeness. Hopefully, the business operator will realize that this account is quite important to his/her personal and family future. Data Form 2 shows the different classifications that are needed for a complete year end analysis. Check to see these accounts are built into the personal accounts.

A major point to always remember is that the student must realize that what he or she does concerning the accuracy and completeness of the record book will show up in the year end analysis and also in his or her federal and state income taxes.

It should be stressed to the business operator that a small amount of work regularly done is much easier and more practical than a tremendous amount of work at the end of the year. Reconstructing a whole year's worth of transactions for a small business can be an almost insurmountable task. Because of this, it will benefit the student as well as the instructor if the recordkeeping can be on a continuous and systematic program.

Appendix C

SMALL BUSINESS ANALYSIS
UNIVERSITY OF MINNESOTA
USOE PROJECT V357013

COMPUTER DATA SHEET
FORM 1
1976

INVENTORY AND PERSONAL

DESCRIPTION	CODE	BUSINESS		PERSONAL	
		BEGINNING A	ENDING B	BEGINNING C	ENDING D
ASSETS					
CASH - BANK	101				
CASH - PETTY	102				
ACCT. REC. CONTROL	108				
ACCT. REC. 0-30 DAYS	109				
ACCT. REC. 30-60 DAYS	110				
ACCT. REC. 60-90 DAYS	111				
ACCT. REC. 90 DAYS	112				
ALLOW. BAD DEBTS	114				
NOTES RECEIVABLE	115				
OPEN	116				
PREPAID INSURANCE	161				
PREPAID TAXES	162				
OPEN	163				
LAND	181				
BUILDINGS	182				
ACCUM. DEPR.-BUILDINGS	183				
EQUIP. & FIXTURES	184				
ACCUM. DEPR.-E. & F.	185				
VEHICLES	186				
ACCUM. DEPR.-VEHICLES	187				
LIABILITIES					
ACCT. PAYABLE CONTROL	208				
ACCT. PAY. 0-30 DAYS	209				
ACCT. PAY. 30-60 DAYS	210				
ACCT. PAY. 60-90 DAYS	211				
ACCT. PAY. 90 DAYS	212				
NOTES PAYABLE-BANK	216				
NOTES PAYABLE-OTHER	217				
INTEREST PAYABLE	218				
OPEN	219				
FED. & FICA PAYABLE	220				
STATE WITH. PAYABLE	221				
FED. UNEMP. PAYABLE	222				
STATE UNEMP. PAYABLE	223				
SALES TAX PAYABLE	224				
PROPERTY TAX PAYABLE	225				
OPEN	226				
MORTGAGE PAYABLE	261				
INTERMEDIATE LOANS	262				
OPEN	263				
CAPITAL ACCT.-OWNER	310				
CAPITAL ACCT.-OTHER	311				
CAPITAL ACCT.-OTHER	312				
DRAW ACCOUNT	320				
FED. & STATE EST. TAX	321				
NET PROFIT - PRIOR YEAR	397				

PERSONAL EXPENSES	CODE	A TOTAL PERSONAL
HEAT	813	
ELECTRICITY	814	
WATER	815	
TELEPHONE	816	
INSURANCE	817	
INTEREST	818	
REPAIRS & MAINT.-LAND	819	
REPAIRS & MAINT.-HOME	820	
REPAIRS & MAINT.-E. & F.	821	
REPAIRS & MAINT.-VEHICLES	822	
GAS, OIL & GREASE	823	
LEGAL & ACCOUNTING	824	
PROPERTY TAXES	825	
CONTRIBUTIONS	826	
ENTERTAINMENT	829	
DUES & SUBSCRIPTIONS	830	
LICENSES	831	
TRAVEL & RECREATION	832	
RENT	839	
MISCELLANEOUS	841	
POSTAGE	843	
SUPPLIES	850	
CHURCH	860	
MEDICAL EXPENSES	862	
FOOD & MEALS	864	
CLOTHING	866	
EDUCATION	868	
FAMILY USE OF GOODS & SERVICES	870	
TOTAL MONEY BORROWED	076	
TOTAL PAID ON DEBTS - PRIN.	078	
TOTAL NON-BUSINESS INCOME	088	
NUMBER OF PERSONS PER FAMILY	090	
ADULT EQUIVALENTS PER FAMILY	095	

	B BUSINESS
(070)	
(074)	

ASSET TRANSACTIONS		PERSONAL	B BUSINESS
SALES OF LAND	710		
COST OF LAND SOLD	715		
SALES OF BUILDINGS	720		
COST OF BUILDINGS SOLD	725		
SALES OF EQUIP. & FIX.	730		
COST OF E. & F. SOLD	735		
SALES OF VEHICLES	740		
COST OF VEHICLES SOLD	745		
PURCHASES OF LAND	760		
PURCH. OF BUILDINGS	770		
PURCH. OF EQUIP. & FIX.	780		
PURCH. OF VEHICLES	790		

IDENTIFICATION CODE _ _ _ _ _ _ _ _ _ _

OPERATORS NAME __________

BUSINESS NAME __________

SCHOOL __________

CITY __________

STATE __________

SUBMISSION DATE __________

INSTRUCTOR __________

BUSINESS YEAR _____ TO _____

MEMBERS OF THE FAMILY	PER PERSON	NO. OF PERSONS	ADULT EQUIV.
CHILD UNDER 7 YEARS	.4		
CHILD FROM 7 TO 12 YEARS	.6		
WOMAN 13 YEARS AND OLDER	.8		
BOY 13 TO 18 YEARS	.9		
MAN 19 YEARS AND OLDER	1.0		
TOTAL			

DEPARTMENTAL CODES

FORM 2A 1. __________
2. __________
3. __________
4. __________
5. __________
FORM 2B 6. __________
7. __________
8. __________
9. __________
10. __________

SMALL BUSINESS ANALYSIS
UNIVERSITY OF MINNESOTA
[illegible]

COMPUTER DATA SHEET
FORM 2A
1976

INCOME AND EXPENSES

I.D. CODE _ _ _ _ _ _ _ _ _ _ _ _

BUSINESS NAME ____________________

		A	B	C	D	E	F
	CODE	BUSINESS TOTAL	DEPT. 1	DEPT. 2	DEPT. 3	DEPT. 4	DEPT. 5
BEGINNING INVENTORIES							
MERCHANDISE INV.	121						
SECONDARY INV.	141						
SALES & REVENUES							
MERCHANDISE	421						
SECONDARY MDSE.	441						
LABOR-CUSTOMER	460						
LABOR-OUTSIDE (SUBLET)	461						
LABOR-INTERNAL	462						
LABOR-WARRANTY	463						
PARTS-INTERNAL	472						
PARTS-WARRANTY	473						
INTEREST INCOME	480						
RENTAL INCOME	481						
ROYALTIES INCOME	482						
PURCHASE DISCOUNTS	490						
VOLUME DISCOUNTS	491						
OTHER	492						
PURCHASES							
MERCHANDISE	521						
SECONDARY MDSE.	541						
FREIGHT-IN COSTS	550						
PRODUCTION COST-SUBLET LABOR	561						
PRODUCTION COST-LABOR	570						
NUMBER OF FULL-TIME WORKERS	052						
HOURS OF LABOR FOR F-T	054						
NUMBER OF PART-TIME WORKERS	056						
HOURS OF LABOR FOR P-T	058						
HOURS OF UNPAID FAMILY LABOR	060						
VALUE OF UNPAID FAMILY LABOR	062						
HOURS WORKED BY OPERATOR	064						
HOURS WORKED BY PARTNERS	066						
VALUE OF PARTNERS LABOR	068						
PERCENTAGE ALLOCATIONS							
TOTAL HOURS OF LABOR	080	100 %					
TOTAL INVESTMENT	082	100 %					
TOTAL EXPENSES	084	100 %					

		A	B	C	D	E	F
	CODE	BUSINESS TOTAL	DEPT. 1	DEPT. 2	DEPT. 3	DEPT. 4	DEPT. 5
ENDING INVENTORIES							
MERCHANDISE INV. (121)	131						
SECONDARY INV. (141)	151						
EXPENSES							
PAID FAMILY LABOR	604						
SALARIES & WAGES	610						
PAYROLL TAXES	611						
ADVERTISING	612						
HEAT	613						
ELECTRICITY	614						
WATER	615						
TELEPHONE	616						
INSURANCE	617						
INTEREST	618						
REPAIRS & MAINT.-LAND	619						
REPAIRS & MAINT.-BUILDINGS	620						
REPAIRS & MAINT.-EQUIP. & FIX.	621						
REPAIRS & MAINT.-VEHICLES	622						
GAS, OIL & GREASE	623						
LEGAL & ACCOUNTING	624						
PROPERTY TAXES	625						
CHARITABLE CONTRIBUTIONS	626						
SHOP EXPENSE	627						
OFFICE EXPENSE	628						
ENTERTAINMENT & PROMOTION	629						
DUES & SUBSCRIPTIONS	630						
LICENSES	631						
TRAVEL & CONVENTIONS	632						
POLICY ADJUSTMENT	633						
DEPRECIATION EXPENSE-CONTROL	634						
DEPRECIATION-BUILDINGS	635						
DEPRECIATION-EQUIP. & FIX.	636						
DEPRECIATION-VEHICLES	637						
BAD DEBTS	638						
RENT	639						
CASH SHORT/LONG	640						
MISCELLANEOUS EXPENSE	641						
DELIVERY EXPENSE	642						
POSTAGE	643						
SELLING EXPENSE	644						
EMPLOYEE BENEFITS	645						
TRASH & GARBAGE REMOVAL	646						
BREAKAGE & SPOILAGE	647						
COLLECTION EXPENSE	648						
BANK CHARGES	649						
SUPPLIES	650						
OPEN	651						
OPEN	652						
OPEN	653						
OPEN	654						

SMALL BUSINESS ANALYSIS
UNIVERSITY OF MINNESOTA
USOE PROJECT V357013

COMPUTER DATA SHEET
FORM 2B
1976

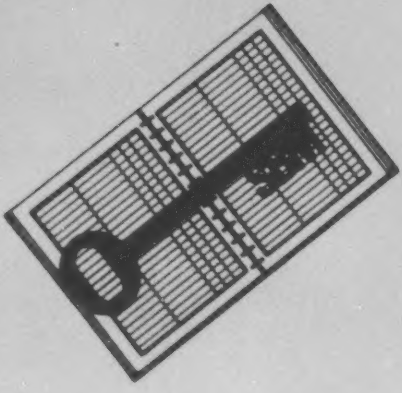
INCOME AND EXPENSES

I.D. CODE ___________

BUSINESS NAME ___________

	CODE	SUBTOTAL 6-10	DEPT. 6	DEPT. 7	DEPT. 8	DEPT. 9	DEPT. 10
BEG. INV.	121						
	141						
SALES	421						
	441						
	460						
	461						
	462						
	463						
	472						
	473						
	480						
	481						
	482						
	490						
	491						
	492						
PURCHASES	521						
	541						
	550						
	560						
	561						
	570						
OTHER	052						
	054						
	056						
	058						
	060						
	062						
	064						
	066						
	068						
% ALLOCATION	080						
	082						
	084						

	CODE	SUBTOTAL 6-10	DEPT. 6	DEPT. 7	DEPT. 8	DEPT. 9	DEPT. 10
END. INV.	131						
	151						
EXPENSES	609						
	610						
	611						
	612						
	613						
	614						
	615						
	616						
	617						
	618						
	619						
	620						
	621						
	622						
	623						
	624						
	625						
	626						
	627						
	628						
	629						
	630						
	631						
	632						
	633						
	634						
	635						
	636						
	637						
	638						
	639						
	640						
	641						
	642						
	643						
	644						
	645						
	646						
	647						
	648						
	649						
	650						
	651						
	652						
	653						
	654						



SMALL BUSINESS MANAGEMENT II

SMALL BUSINESS ANALYSIS

UNIT 1 CALCULATING INCOME AND SOCIAL SECURITY SELF-EMPLOYMENT TAXES 2.3

UNIT 2 MEASURES OF SMALL BUSINESS PROFIT 2.65

UNIT 3 MEASURES OF SMALL BUSINESS SIZE 2.87

UNIT 4 GENERAL INTERPRETATION OF THE ANALYSIS 2.93

UNIT 5 THE IMPORTANCE OF INVENTORIES 2.105

UNIT 6 ANALYZING THE SIZE OF BUSINESS 2.113

UNIT 7 ANALYZING MECHANIZATION, LABOR, EQUIPMENT AND BUILDING COSTS 2.117

UNIT 8 ANALYZING MAJOR DEPARTMENTAL EFFICIENCIES 2.125

UNIT 9 ANALYZING THE SERVICE DEPARTMENT 2.133

UNIT 10 EVALUATION OF THE SMALL BUSINESS 2.141

UNIT 11 INCOME TAX PLANNING AND MANAGEMENT 2.147

UNIT 12 CLOSING THE SMALL BUSINESS RECORD SYSTEM FOR ANALYSIS 2.153

2.2

INTRODUCTION TO SMALL BUSINESS MANAGEMENT II

Management education is a continuing program. There is no natural break between Small Business Management I and Small Business Management II. The second year of instruction which begins in January and continues through December may be called "Small Business Analysis." The program of instruction for the second year puts particular emphasis on the interpretation of the first year's analysis. The first unit deals with income tax preparation. The following three units establish the background information necessary for interpreting the first year's analysis.

The analysis interpretation begins in March or April, depending on how rapidly the business family and the instructor are able to submit the business data to the analysis center for analysis. The instructor should make an effort to submit this data prior to the time the business record is tied up for income tax purposes.

Many of the lessons in Small Business Management II center around examples of the application of sound management and economic principles. While the principles are not usually explicitly identified, the instructor should be alert to the opportunity to identify the principles with which the unit is concerned and to explain the nature of the principle to his small business families. The final units deal with income tax management and closing the record system for the second year's analysis.

Year II--Unit 1

CALCULATING INCOME AND SOCIAL SECURITY SELF-EMPLOYMENT TAXES

Part I. Student Objectives

A. Using Form 1040, Schedule C and an example of a small business account, the student will be able to calculate "Profit (or Loss) From Business," which will aid in the completion of actual income and social security self-employment tax forms at a later date.

B. Using Form 1040, Schedule D, Forms 4797, 2119 and an example of a small business account complete with depreciation schedule, the student will be able to calculate "Capital Gains Income," which will aid in the completion of actual federal income tax forms at a later date.

C. Given Form 1040 and using the complete schedules from A and B above plus other special forms as indicated by the instructor, the student will be able to calculate "Federal Income Tax Liability," which will aid in the completion of actual federal income tax forms at a later date.

D. Given Minnesota Form M-1 (State Tax Forms) and using the federal schedules completed in A, B and C above, the student will be able to calculate "Minnesota Income Tax" (state taxes), which will aid in the completion of actual state income tax forms at a later date.

Part II. Transition of Units

The previous unit involved a detailed closing of the record system for a year-end analysis. The business records were checked for completeness and accuracy, depreciation schedules completed and income and expense items allocated to departments wherever appropriate.

This unit, taught in the month of January, takes an example of a small business account and follows the procedures needed to calculate federal and state income taxes. With this lesson and the completed data from the student's business records, it should be possible to ascertain actual income tax liabilities.

While this unit goes through the mechanical process of filing a tax return and computing the taxes due, its primary purpose is to develop an understanding of the reporting and taxing process. Since taxes can be a large expenditure for some businesses, the knowledge of how they are computed will be an aid to good tax management practices and serve as an additional incentive for improving the accounting system. Tax management will be dealt with in Unit 11.

The following unit on "Measures of Small Business Profit" will set the stage for an understanding of the business analysis to be completed by April. It will stress why these measurements are being made.

Part III. Lesson

Attention Focuser

Have each business family silently recall the amount of taxes they paid in the previous calendar year. Ask for a show of hands from those who think they should have paid more. Then ask how many think they should have paid less. This helps frame the issue for discussion: "The question really is, how do we determine what the correct amount of tax is and can anything be done about it?"

KEY QUESTION 1. Why should a business operator study income tax procedures?

A. It is the obligation for all business operators to keep accurate records and to pay the proper taxes to support state and federal government.

B. Small business families need to know how income taxes and social security self-employment taxes are computed in order to manage their tax liabilities properly.

C. As with other expense items, controlling the large expense item of income taxes may leave more money available to meet family goals.

Suggested Teaching Strategies

Ask how many of the students feel confident enough to file their own income tax. Follow with a question of how many students understand the basic processes for filing the required state and federal tax documents, even if they leave the actual filing to a tax consultant or accountant.

Using the information under Key Question 1, discuss why it is important that business operators understand the process.

KEY QUESTION 2. How do you determine profit (or loss) from a business using Form 1040, Schedule C?

A. Transfer income totals from record system to appropriate space on Schedule C.

B. Transfer expense totals from record system to appropriate space on Schedule C.

C. Complete depreciation schedule and transfer totals to Schedule C-3.

D. Complete calculations on Schedule C to determine "Net Profit (or Loss)" for income tax and social security self-employment purposes.

Suggested Teaching Strategies

A packet of all forms needed for computing tax liability should be supplied to each family. The forms may be used by class members to follow the discussion and to make notes that will be helpful in doing their own tax return. A business packet of income tax forms may be obtained from your nearest IRS office.

An example of a small business account complete with a depreciation schedule should be used in the class to illustrate how easy it is to transfer income, expenses and depreciation totals to Form 1040, Schedule C.

Completion of a family's actual tax return should not be attempted in class because of the confidential nature of the information.

Spend a few minutes with Form 1040 SE, Part 1, in the calculation of Social Security Self-Employment Tax.

KEY QUESTION 3. How do you determine capital gains income using Form 1040, Schedule D, Form 4797 and Form 2119?

A. Complete short-term capital gains.

B. Complete long-term capital gains.

C. Complete gains from Section 1245 and 1250 property, depreciable assets held more than 6 months.

D. Complete gains other than capital assets, Section 1245 and 1250 property losses.

E. Complete gain on sale of exchange of a personal residence.

F. Determine total gains and losses from sale or exchange of property.

Suggested Teaching Strategies

Use Form 1040, Schedule D and Form 4797 to illustrate how machinery and equipment and other property are treated for tax purposes. Use appropriate examples from the sample depreciation schedule. Use Form 2119 to illustrate how the sale of your residence is treated for tax purposes.

It is important that students learn to recognize gains and losses that fall into the capital gains tax category as opposed to ordinary income. Stress the importance of following tax forms to the letter in order to arrive at the correct taxable income.

KEY QUESTION 4. How do you determine your federal income tax liability using Form 1040, 1065 or 1120?

A. Determine adjusted gross income.

B. Determine exemptions.

C. Determine non-business deductions.

D. Determine tax credits.

E. Determine tax from table or schedule; determine surcharge.

F. Determine balance due or refund due with the return.

Suggested Teaching Strategies

Utilize Form 1040 for the basic discussion of this key question. Forms 1065 (Partnership) and 1120 (Corporation) are included for use if a sufficient number in the class are filing under these two business organization patterns.

The adjusted gross income is determined by combining on Form 1040 the "Net Profit" from Schedule C, the "Capital Gains" from Schedule D, Form 4797 and Form 2119, and other miscellaneous income that may not require separate schedules.

Point out that by using the step-by-step procedure outlined in the previous key questions and by reading and following directions, almost anyone can file their own income taxes.

Form 3468, "Computation of Investment Credit," and other special forms may be needed to complete this presentation. A checklist of forms and schedules to be filed by the family will prove helpful (see Appendix A, 1976 Income Tax--Final Reminders).

Even though some families may prefer to have an attorney or tax consultant complete their returns this exercise should be encouraged. The family will learn more about its own tax problems and probably will have a more complete return with this understanding.

KEY QUESTION 5. How do you determine Minnesota Income Tax (state tax) due using Form M-1 (appropriate state tax forms)?

To determine tax due, carry forward from the proper table or schedule of the completed federal returns, onto Form M-1.

Suggested Teaching Strategies

Using the appropriate state tax forms and the tax problem, lead the students through the completion of the state tax form step by step. Allow adequate time for questions.

Part IV. Summary

A. The payment of proper taxes is an obligation of all business operators. Accurate and complete records, coupled with an understanding of income tax procedures, will result in the lowest possible legal tax liability.

B. While an individual family may choose to have their returns completed and filed by a tax expert, that expert can only work with the figures made available by the family.

Part V. At-The-Business Instruction

A. An at-the-business visit should be scheduled with each family to work individually with them on their income tax reporting. This topic may be worked on in conjunction with the final closeout of the record keeping system.

B. The importance of complete and accurate records should be stressed as a means of reducing tax liability.

C. Prior tax returns may be checked for completeness and consistency with a suggestion for filing an amended return if errors are discovered.

Part VI. Resources

Overhead projector
Chalkboard, chalk and eraser
Supply of lined paper and pencils
Tax kits containing Form 1040, Schedules A, C, D, SE, 4797, 2119 and M-1 (state tax form) for each family
Transparencies of appendices
An example of a small business account with depreciation schedule for each family
A copy of Tax Guide for Small Business (current edition) for each family
Tax Form 3468

Part VII. References

1. Internal Revenue Service, U. S. Department of the Treasury, Tax Guide for Small Business, 1976 Edition, Publication 334, Washington, U. S. Government Printing Office, October 1975.

2. Internal Revenue Service, U. S. Department of the Treasury, Your Federal Income Tax, 1976 Edition, Publication 17, Washington, U. S. Government Printing Office, October 1975.

Part VIII. Appendix

A. 1976 Income Tax--Final Reminders

B. State Income Tax--Final Reminders

C. General Information Used For Completion of the Sample Tax Exercise

D. Sample Business Analysis--Brown Furniture Company

E. Sample Federal Tax Forms--Completed

F. Sample Minnesota State Tax Forms--Completed

Appendix A

1976 Income Tax--Final Reminders

For federal income tax, complete the following forms:

Form 1040	U. S. Individual Income Tax Return (for anyone filing federal income tax)
Schedule A (1040)	Itemized Personal Deductions
Schedule C (1040)	Profit (or Loss) From Business or Profession and Supplemental Depreciation C-3
Schedule D (1040)	Gains or Losses From Sales or Exchanges of Property
Sched E & R (1040)	Supplemental Schedule of Income and Retirement Income Credit
Schedule G (1040)	Income Averaging (if you income average)
Schedule SE (1040)	Computation of Social Security and Self-Employment Tax (needed if the self-employed person has business earnings over $400)
Form 2119	Sale or Exchange of Personal Residence
Form 2441	Expenses for Household and Dependent Care Services
Form 3468	Computation of Investment Credit
Form 4136	Computation of Credit--Gas and Oil Tax
Form 4684	Casualties and Theft
Form 4797	Supplemental Schedule of Gains and Losses
Form 4798	Capital Loss Carryover
Form 1040-ES	Declaration of Estimated Tax for Individuals
Form W-2	If you or your spouse worked for wages
Form 1065	If you are filing a U. S. Partnership return
Form 1120	If you are filing a U. S. Corporation return

The appropriate forms and schedules should be mailed to the following address, along with a check covering the amount of your income tax and social security liabilities made payable to the Internal Revenue Service:

Internal Revenue Service
1160 West 1200 South Street
Ogden, Utah 84201

Appendix B

State Income Tax—Final Reminders

For state income tax, complete the following forms:

Form M-1	Minnesota Individual Tax Return
Form 1040	Include a copy of Form 1040 and its supporting schedules (marked "Minnesota Copy" in the upper right-hand corners) showing how you arrived at the federal adjusted gross income.
Form MW-2	If you or your spouse worked for wages
Form M-3S-4	If you are electing to file a Subchapter S Corporation--Partnership return
Form M-4	If you are filing a Minnesota Corporation return
--	Minnesota Declaration of Estimated Tax for Individuals

The forms and schedules and a check payable to the Commissioner of Taxation should be mailed to:

Minnesota Individual Income Tax
Centennial Office Building
St. Paul, MN 55172

Appendix C
General Information Used For Completion of the Sample Tax Exercise

Owners: Al and Debra Brown
Address: Anoka, MN 55303
County of Residence: Anoka
SS Nos: Al 433-46-6124; Debra 471-52-2729
Married, filing a joint return; both are under 65 years old
Three children: Dan, Gloria and Marc, all under 19 years old

Schedule A Information

Medical Insurance Premiums	$281
Medicine	113
Doctors, dentists	497
Hospitals	160
Eye glasses	46
State, local taxes	3,500
State, local gas taxes	76
General sales tax	182
Auto, snowmobile int. charges	231
Church contributions	341

Est. payments made throughout the year:	
Federal	$6,300
State	3,500

Payments made:	Federal	State
1st April 15	$1,575	$ 875
2nd June 15	1,575	875
3rd September 15	1,575	875
4th January 15	1,575	875

No other personal deductions

Schedule C Information

Business activity--sales; product--furniture; business name--Brown Furniture

Gross receipts	$153,203	Salaries and wages	$15,658
Beginning inventory	29,610	Insurance	850
Purchases	84,098	Legal fees	283
Personal use of merchandise		Business interest	1,456
Ending inventory	22,525	Freight	1,213
Depreciation	3,054	Utilities	1,214
Property taxes	1,664	Supplies	218
Building rent	1,500	Advertising	600
Licenses	193	Truck expense	1,037
Repairs to equipment, etc.	1,617		

Schedule D Information

Lakeshore property sold on 9/1/75 (had been purchased on 6/5/64)
Purchase price--$650; selling price--$3,000

Schedule E & R Information

Rent of parking lot in Anoka, MN-$600/year

Form 4797 Information

Dodge van purchased in 1967; purchase price $2,100
Depreciation allowed or allowable--$1,800
Van sold on 8/24/75; selling price--$845

Form M-1 Information

Occupation code #174; School District 11; dental costs--$415; doctor costs--$82; car license--$30; federal telephone tax--$16

Schedule of Other Deductions for Form 1120S, Line 26

Licenses	$ 193	Heat	$ 680
Legal	283	Insurance	850
Telephone	165	Gas, oil, grease	1,037
Electricity	369	Total to Form 1120S, Line 26	$3,577

BUSINESS NAME Brown Furniture

OPERATORS NAME Al Brown

DATE 3-25-76

YEAR 1-1-75 TO 12-31-75

TABLE 1. SUMMARY OF BUSINESS INVENTORIES

CODE NO. 23-00-000-001

475.	GROSS INCOME-SALES AND SERVICES			$ 153203
A.	GROSS EXPENSES (NOT INCLUDING OPERATOR LABOR)			$ 121740
699.	NET OPERATING INCOME OR PROFIT			$ 31463
B.	NUMBER OF WORKERS REQUIRED (ACTUAL)	FULL TIME	3	
		PART TIME	1	
C.	NUMBER OF WORKERS REQUIRED (EQUIVALENT)		3.5	
D.	NET RETURN PER WORKER EQUIVALENT			$ 13463
E.	CAPITAL INVESTMENT PER WORKER EQUIVALENT			$ 22074
F.	ASSETS	BEGINNING	ENDING	
121.	MERCHANDISE HELD FOR RESALE	$ 29610	$ 22525	
181.	BARE LAND	$ 3000	$ 3000	
182.	BUILDINGS	$ 22200	$ 20720	
184.	EQUIPMENT & FIXTURES	$ 3347	$ 2703	
186.	VEHICLES	$ 2300	$ 3970	
G.	TOTAL NON-CASH ASSETS	$ 60457	$ 52918	
H.	INCREASE OR DECREASE IN NON-CASH ASSETS			(-) $ (7539)

2.12

BUSINESS NAME Brown Furniture

TABLE 2. INCOME AND EXPENSE STATEMENT

CODE NO. 23-00-000-001

400.	INCOME	
421.	SALES OF GOODS & SERVICES	153203
870.	FAMILY USE OF GOODS & SERVICES	--
A.	TOTAL GOODS & SERVICES	153203
749.	SALES OF ASSETS	845
B.	TOTAL OTHER BUSINESS INCOME	600
C.	INCREASE IN NON-CASH ASSETS	--
D.	TOTAL INCOME	154648
600.	EXPENDITURES	
521.	MDSE. PURCHASED FOR RESALE	85311
609.	PAID FAMILY WAGES	500
610.	SALARIES & WAGES	13770
611.	PAYROLL TAXES	1388
612.	ADVERTISING	600
613.	HEAT & ELECTRICITY	1049
615.	WATER & TELEPHONE	165
617.	INSURANCE	850
619.	REPAIRS & MAINTENANCE - LAND	140
620.	REPAIRS & MAINTENANCE - BUILDINGS	907
621.	REPAIRS & MAINTENANCE - EQUIPMENT & FIXTURES	185
622.	REPAIRS & MAINTENANCE - VEHICLES	385
623.	GAS, OIL & GREASE	1037
624.	LEGAL & ACCOUNTING	283
625.	PROPERTY TAXES	1664
626.	CONTRIBUTIONS & DONATIONS	--
627.	SHOP & OFFICE EXPENSE	--
629.	ENTERTAINMENT, DUES & TRAVEL	--
631.	LICENSES	193
638.	BAD DEBTS	--
639.	RENT	1500
641.	MISCELLANEOUS & OTHER EXPENSES	--
642.	DELIVERY & POSTAGE	--
644.	SELLING EXPENSES	--
645.	EMPLOYEE BENEFITS	--
646.	TRASH & BREAKAGE	--
648.	COLLECTION & BANK CHARGES	--
650.	SUPPLIES	218
E.	TOTAL EXPENSES	110145
750.	PURCHASES OF ASSETS	
760.	BARE LAND	--
770.	BUILDINGS	--
780.	EQUIPMENT & FIXTURES	--
790.	VEHICLES	2900
F.	DECREASE IN NON-CASH ASSETS	7539
G.	INTEREST ON INVESTMENT (6%)	3401
062.	UNPAID FAMILY LABOR	1000
H.	TOTAL EXPENDITURES	124985
RLM.	RETURN TO OPERATORS LABOR & MANAGEMENT	29663
CLM.	RETURN TO CAPITAL, FAMILY LABOR & MANAGEMENT	32608

BUSINESS NAME Brown Furniture

2.13

TABLE 2.1 INCOME AND EXPENSE STATEMENT - BUSINESS ONLY

CODE NO. 23-00-000-001

400.	INCOME		
421.	MERCHANDISE SALES		151507
441.	SECONDARY SALES		--
460.	CUSTOMER LABOR		1696
461.	OUTSIDE LABOR		--
462.	INTERNAL LABOR		--
463.	WARRANTY LABOR		--
472.	INTERNAL PARTS		--
473.	WARRANTY PARTS		--
475.	NET SALES OF GOODS & SERVICES		153203
500.	COST OF GOODS OR SERVICES SOLD		
121.	BEGINNING INVENTORY	29610	
521.	MDSE. PURCHASED	84098	
541.	SECONDARY PURCHASES	--	
550.	FREIGHT IN COSTS	1213	
561.	SUBLET LABOR	--	
570.	COST OF LABOR	--	
A.	GOODS OR SERVICES AVAILABLE	114921	
121.	ENDING INVENTORY	22525	
598.	COST OF GOODS OR SERVICES SOLD		92396
599.	GROSS PROFIT FROM SALES		60807
600.	EXPENSES		
609.	PAID FAMILY LABOR	500	
610.	SALARIES & WAGES	13770	
611.	PAYROLL TAXES	1388	
612.	ADVERTISING	600	
613.	HEAT	680	
614.	ELECTRICITY	369	
615.	WATER	--	
616.	TELEPHONE	165	
617.	INSURANCE	850	
618.	INTEREST	1456	
619.	REPAIR & MAINT. - LAND	140	
620.	REPAIR & MAINT. - BUILDINGS	907	
621.	REPAIR & MAINT. - EQUIPMENT & FIX.	185	
622.	REPAIR & MAINT. - VEHICLES	385	
623.	GAS, OIL & GREASE	1037	
624.	LEGAL & ACCOUNTING	283	
625.	PROPERTY TAXES	1664	
626.	CONTRIBUTIONS & DONATIONS	--	
627.	SHOP EXPENSE	--	
628.	OFFICE EXPENSE	--	
629.	ENTERTAINMENT & PROMOTION	--	
630.	DUES & SUBSCRIPTIONS	--	
631.	LICENSES	193	

BUSINESS NAME Brown Furniture

TABLE 2.1 CONTINUED

CODE NO. 23-00-000-001

632.	TRAVEL & CONVENTION		--	
633.	POLICY ADJUSTMENT		--	
635.	DEPRECIATION - BUILDINGS	1480		
636.	DEPRECIATION - EQUIP. & FIX.	644		
637.	DEPRECIATION - VEHICLES	930		
634.	DEPRECIATION TOTAL		3054	
638.	BAD DEBTS		--	
639.	RENT		1500	
640.	CASH SHORT/LONG		--	
641.	MISCELLANEOUS		--	
642.	DELIVERY		--	
643.	POSTAGE		--	
644.	SELLING EXPENSE		--	
645.	EMPLOYEE BENEFITS		--	
646.	TRASH & GARBAGE REMOVAL		--	
647.	BREAKAGE & SPOILAGE		--	
648.	COLLECTION EXPENSE		--	
649.	BANK CHARGES		--	
650.	SUPPLIES		218	
651.	OPEN ACCOUNT		--	
652.	OPEN ACCOUNT		--	
653.	OPEN ACCOUNT		--	
654.	OPEN ACCOUNT		--	
698.	TOTAL EXPENSES & DEDUCTIONS			29344
699.	NET OPERATING PROFIT			31463
B.	OTHER BUSINESS INCOME			
480.	INTEREST INCOME			600
481.	RENTAL INCOME			--
482.	ROYALTIES INCOME			--
490.	PURCHASE DISCOUNTS			--
491.	VOLUME DISCOUNTS			--
492.	OTHER			545
397.	NET PROFIT			32608

SIGNATURE ____________________

BUSINESS NAME Brown Furniture
2.15

TABLE 3. SUMMARY OF GROSS MARGINS AND NET DECREASE

CODE NO. 23-00-000-001

A.	DEPARTMENTAL GROSS MARGINS	
599.01	DEPARTMENT 1	13195
599.02	DEPARTMENT 2	12773
599.03	DEPARTMENT 3	11859
599.04	DEPARTMENT 4	12124
599.05	DEPARTMENT 5	9160
599.06	DEPARTMENT 6	1696
599.07	DEPARTMENT 7	--
599.08	DEPARTMENT 8	--
599.09	DEPARTMENT 9	--
599.10	DEPARTMENT 10	--
599.	TOTAL OF DEPARTMENTAL GROSS MARGINS	60807
480.	OTHER BUSINESS INCOME	600
B.	TOTAL RETURNS AND NET INCREASES	61407
C.	EXPENSES AND NET DECREASES	
181.	LAND	140
182.	BUILDINGS	2387
184.	EQUIPMENT & FIXTURES	829
186.	VEHICLES	1807
605.	LABOR COSTS	16658
612.	ADVERTISING	600
613.	UTILITIES	1214
617.	INSURANCE	850
624.	LEGAL & ACCOUNTING	283
625.	TAXES & LICENSES	1857
626.	CONTRIBUTIONS & DONATIONS	--
627.	SHOP & OFFICE EXPENSE	--
629.	ENTERTAINMENT, DUES & TRAVEL	--
638.	BAD DEBTS	--
639.	RENT PAID	1500
641.	MISCELLANEOUS & OTHER EXPENSES	--
642.	DELIVERY & POSTAGE	--
644.	SELLING EXPENSE	--
646.	TRASH & BREAKAGE	--
648.	COLLECTION & BANK CHARGES	--
650.	SUPPLIES	218
D.	INTEREST ON NON-CASH INVESTMENT (6%)	3401
E.	TOTAL EXPENSES AND NET DECREASES	31744
RLM.	RETURN TO OPERATORS LABOR & MANAGEMENT	29663

2.16

BUSINESS NAME Brown Furniture

TABLE 4. BALANCE SHEET - BUSINESS ONLY

CODE NO. 23-00-000-001

		(A)	(B)	(C)	(D)
			BEGINNING		ENDING
A.	ASSETS				
100.	CURRENT ASSETS:				
101.	CASH IN BANK		2925		32821
102.	CASH - PETTY		--		--
109.	ACCOUNTS REC. 0-30	802		870	
110.	ACCOUNTS REC. 30-60	105		2489	
111.	ACCOUNTS REC. 60-90	43		202	
112.	ACCOUNTS REC. 90	-		884	
108.	TOTAL A/R	950		4445	
114.	ALL. FOR BAD DEBTS	-		-	
B.	NET A/R		950		4445
115.	NOTES RECEIVABLE		--		--
116.	OPEN		--		--
121.	MDSE. INVENTORY		29610		22525
141.	SECONDARY MDSE. INV.		--		--
161.	PREPAID INSURANCE		--		--
162.	PREPAID TAXES		--		--
163.	OPEN		--		--
179.	TOTAL CURRENT ASSETS		33485		59791
180.	FIXED ASSETS:		REMAINING VALUE		REMAINING VALUE
181.	BARE LAND		3000		3000
182.	BUILDINGS	37000		37000	
183.	ACCUM. DEPR. BLDGS	14800	22200	16280	20720
184.	EQUIP. & FIXTURES	7800		7800	
185.	ACCUM. DEPR.-E & F	4453	3347	5097	2703
186.	VEHICLES	7600		5400	
187.	ACCUM DEPR-VEHICLES	5300	2300	1430	3970
190.	TOTAL FIXED ASSETS		30847		30393
199.	TOTAL ASSETS		64332		90184

TABLE 4. CONTINUED

CODE NO. 23-00-000-001

2.1

		(A)	(B) BEGINNING	(C)	(D) ENDING
C.	LIABILITIES				
200.	CURRENT LIABILITIES:				
209.	ACCT. PAY. 0-30	--		--	
210.	ACCT. PAY. 30-60	--		2536	
211.	ACCT. PAY. 60-90	--		--	
212.	ACCT. PAY. 90	--		--	
208.	TOTAL A/P		3027		2536
216.	NOTES PAY.-BANK		4187		11437
217.	NOTES PAY.-OTHER		--		--
218.	ACCRUED INTEREST		--		--
219.	OPEN		--		--
220.	FED. & FICA PAY.		800		800
221.	STATE WITH. PAY.		--		--
222.	FED. UNEMP. PAY.		--		--
223.	STATE UNEMP. PAY.		--		--
224.	STATE SALES TAX PAY.		--		--
225.	PROPERTY TAX PAY.		--		--
226.	OPEN		--		--
250.	TOTAL CURR. LIAB.		8014		14773
260.	LONG-TERM LIABILITIES:				
261.	MORTGAGE PAY.		29873		26473
262.	INTERMED. LOANS		--		--
263.	OPEN		--		--
295.	TOTAL LONG-TERM LIAB.		29873		26473
299.	TOTAL LIABILITIES		37887		41246
300.	OWNERS EQUITY				
310.	CAPITAL ACCT. - OWNER		16445		26445
311.	CAPITAL ACCT. - OTHER		--		--
312.	CAPITAL ACCT. - OTHER		--		--
320.	DRAW ACCT.		10000		9550
321.	FED. & STATE EST. TAX		--		
396.	SUSPENSE		--		(565)
397.	NET PROFIT		20000		32608
379.	TOTAL EQUITY		26445		48938
390.	TOTAL LIAB. EQUITY		64332		90184

		(B)	(D)
D.	GAIN OR LOSS IN OWNERS EQUITY		22493
E.	RATIO - CURRENT ASSETS/CURR. LIAB.	4.18	4.05
F.	RATIO - CURRENT LIAB./INVENTORY	.27	.66
G.	RATIO - FIXED ASSETS/OWNERS EQUITY	1.17	.62
H.	RATIO - LAND & BLDGS/L-T LIAB.	.84	.90
I.	RATIO - TOTAL ASSETS/TOTAL LIAB.	1.70	2.19
J.	RATIO - TOTAL ASSETS/OWNERS EQUITY	2.43	1.84
K.	QUICK RATIO-CASH, A/R, ETC./CURR. LIAB.	.48	2.52

SIGNATURE

BUSINESS NAME Brown Furniture

2.18

TABLE 5. NET WORTH

CODE NO. 23-00-000-001

A.	BUSINESS ASSETS		
101.	CASH ON HAND & IN BANK (BUSINESS ONLY)	2925	32821
108.	TOTAL ACCOUNTS RECEIVABLE	950	4445
115.	NOTES RECEIVABLE	--	--
121.	MERCHANDISE INVENTORY	29610	22525
161.	OTHER CURRENT ASSETS	--	--
181.	BARE LAND	3000	3000
182.	BUILDINGS	22200	20720
184.	EQUIPMENT & FIXTURES	3347	2703
186.	VEHICLES	2300	3970
199.	TOTAL BUSINESS ASSETS	64332	90184
B.	PERSONAL ASSETS		
C.	LAND & BLDGS.	15860	15860
D.	OTHER NON-BUSINESS ASSETS	11935	12713
E.	TOTAL ASSETS	92127	118757
F.	BUSINESS LIABILITIES		
250.	CURRENT LIABILITIES	8014	14773
295.	LONG-TERM LIABILITIES	29873	26473
299.	TOTAL BUSINESS LIABILITIES	37887	41246
G.	PERSONAL LIABILITIES	1966	637
H.	TOTAL LIABILITIES	39853	41883
I.	TOTAL NET WORTH (BUSINESS & PERSONAL)	52274	76874
J.	CHANGE IN TOTAL NET WORTH		24600
RLM.	RETURN TO OPERATORS LABOR & MANAGEMENT		29663
CLM.	RETURN TO CAPITAL, FAMILY, LABOR & MANAGEMENT		32608
088.	NON-BUSINESS INCOME		2350
070.	TOTAL MONEY BORROWED (BUSINESS & PERSONAL)		15000
074.	TOTAL PAID ON DEBT (PRINCIPAL ONLY-BUSINESS & PERSONAL)		12479
K.	TOTAL HOUSEHOLD AND PERSONAL CASH EXPENSE		8826

BUSINESS NAME Brown Furniture

2.19

TABLE 6. HOUSEHOLD AND PERSONAL EXPENSES

CODE NO. 23-00-000-001

090.	NUMBER OF PERSONS PER FAMILY	5	
095.	ADULT EQUIVALENTS PER FAMILY	4.5	
800.	EXPENSES		
813.	HEAT		$ 291
814.	ELECTRICITY		158
815.	WATER		
816.	TELEPHONE		71
817.	INSURANCE		1007
818.	INTEREST		231
819.	REPAIRS & MAINT. - LAND		--
820.	REPAIRS & MAINT. - BUILDINGS		--
821.	REPAIRS & MAINT. - EQUIPMENT & FURNISHINGS		--
822.	REPAIRS & MAINT. - VEHICLES		--
823.	GAS, OIL & GREASE		543
824.	LEGAL & ACCOUNTING		--
825.	PROPERTY TAXES		--
826.	CONTRIBUTIONS & DONATIONS		341
829.	ENTERTAINMENT		--
830.	DUES & SUBSCRIPTIONS		--
831.	LICENSES		--
832.	TRAVEL & RECREATION		752
839.	RENT		--
841.	MISCELLANEOUS		1331
843.	POSTAGE		--
850.	SUPPLIES		--
860.	CHURCH		--
862.	MEDICAL EXPENSES		816
864.	FOOD & MEALS		1391
866.	CLOTHING		459
868.	EDUCATION		639
A.	TOTAL CASH LIVING EXPENSES		8030
760.	LAND PURCHASED		--
770.	BUILDINGS PURCHASED		--
780.	EQUIPMENT & FURNISHINGS PURCHASED		796
790.	VEHICLES PURCHASED		--
B.	TOTAL HOUSEHOLD AND PERSONAL CASH EXPENSE		8826
870.	FAMILY USE OF GOODS & SERVICES		--
C.	TOTAL HOUSEHOLD CASH & NON-CASH EXPENSE		8826

BUSINESS NAME Brown Furniture

2.20

TABLE 7. MEASURES OF BUSINESS ORGANIZATION AND EFFICIENCY

CODE NO. 23-00-000-001

A.	BUSINESS SIZE		
B.	AVERAGE BUSINESS INVESTMENT [(TOTAL ASSETS-BEGINNING + TOTAL ASSETS-END) ÷ 2]		$ 77258
C.	TOTAL GROSS MARGIN (NET SALES MINUS COST OF GOODS SOLD)		60807
D.	YEARLY WORKER EQUIVALENT (2000 HOURS PER WORKER)	3.5	
E.	LABOR EFFICIENCY		
F.	GROSS MARGIN PER WORKER (EQUIVALENT)		17373
G.	TOTAL BUSINESS INVESTMENT PER WORKER (EQUIVALENT)		22074
H.	OVERHEAD		
I.	TOTAL EXPENSES ÷ $1000 OF GROSS MARGIN		483
J.	TOTAL EXPENSES PER WORKER (EQUIVALENT)		8384
K.	TURNOVER		
L.	TOTAL GROSS MARGIN PER $1000 OF AVERAGE BUSINESS INVESTMENT		787
M.	INVENTORY TURNOVER (NET SALES ÷ YEAR END INV.)	6.80	
N.	CREDIT CONTROL		
O.	RECEIVABLE TURNOVER (NET SALES ÷ YEAR END A/R)	34.47	
P.	COLLECTION PERIOD [YEAR END A/R ÷ (NET SALES ÷ 360)]		10.45
Q.	RATIO ANALYSIS		
R.	NET OPERATING PROFIT TO NET SALES		21%
S.	NET SALES TO OWNERS EQUITY		3.13
T.	NET SALES TO AVERAGE INVENTORY		5.88
U.	NET SALES TO WORKING CAPITAL [NET SALES ÷ (YEAR END CURRENT ASSETS MINUS YEAR END CURRENT LIABILITIES)]		3.40
V.	RETURN PER HOUR ON OPERATOR & UNPAID FAMILY LABOR		$12.27
W.	RETURN ON BUSINESS INVESTMENT (NET OPERATING PROFIT ÷ AVERAGE BUSINESS INVESTMENT)		41%

BUSINESS NAME Brown Furniture
DEPARTMENT Bedroom
2.21

TABLE 9.01 DEPARTMENTAL INCOME AND EXPENSE STATEMENT

CODE NO. 23-00-000-001

400.	INCOME		
421.	MERCHANDISE SALES		34850
441.	SECONDARY SALES		-
460.	CUSTOMER LABOR		-
461.	OUTSIDE LABOR		-
462.	INTERNAL LABOR		-
463.	WARRANTY LABOR		-
472.	INTERNAL PARTS		-
473.	WARRANTY PARTS		-
475.	NET SALES OF GOODS & SERVICES		34850
500.	COST OF GOODS OR SERVICES SOLD		
121.	BEGINNING INVENTORY	5600	
521.	MDSE. PURCHASED	20261	
541.	SECONDARY PURCHASES	-	
550.	FREIGHT-IN COSTS	194	
561.	SUBLET LABOR	-	
570.	COST OF LABOR	-	
A.	GOODS OR SERVICES AVAILABLE	26055	
121.	ENDING INVENTORY	4400	
598.	COST OF GOODS OR SERVICES SOLD		21655
599.	GROSS PROFIT FROM SALES		13195
600.	EXPENSES		
609.	PAID FAMILY LABOR	100	
610.	SALARIES & WAGES	2754	
611.	PAYROLL TAXES	278	
612.	ADVERTISING	90	
613.	HEAT	102	
614.	ELECTRICITY	55	
615.	WATER	-	
616.	TELEPHONE	25	
617.	INSURANCE	128	
618.	INTEREST	153	
619.	REPAIR & MAINT. - LAND	20	
620.	REPAIR & MAINT. - BUILDINGS	136	
621.	REPAIR & MAINT. - EQUIPMENT & FIX.	34	
622.	REPAIR & MAINT. - VEHICLES	-	
623.	GAS, OIL & GREASE	-	
624.	LEGAL & ACCOUNTING	42	
625.	PROPERTY TAXES	250	
626.	CONTRIBUTIONS & DONATIONS	-	
627.	SHOP EXPENSE	-	
628.	OFFICE EXPENSE	-	
629.	ENTERTAINMENT & PROMOTION	-	
630.	DUES & SUBCRIPTIONS	-	
631.	LICENSES	-	

2.22

BUSINESS NAME Brown Furniture
DEPARTMENT Bedroom

TABLE 9.01 CONTINUED

CODE NO. 23-00-000-001

632.	TRAVEL & CONVENTION		--	
633.	POLICY ADJUSTMENT		--	
635.	DEPRECIATION - BUILDINGS	222		
636.	DEPRECIATION - EQUIP. & FIX.	129		
637.	DEPRECIATION - VEHICLES	-		
634.	DEPRECIATION TOTAL		351	
638.	BAD DEBTS		--	
639.	RENT		240	
640.	CASH SHORT/LONG		--	
641.	MISCELLANEOUS		--	
642.	DELIVERY		--	
643.	POSTAGE		--	
644.	SELLING EXPENSE		--	
645.	EMPLOYEE BENEFITS		--	
646.	TRASH & GARBAGE REMOVAL		--	
647.	BREAKAGE & SPOILAGE		--	
648.	COLLECTION EXPENSE		--	
649.	BANK CHARGES		--	
650.	SUPPLIES		--	
651.	OPEN ACCOUNT		35	
652.	OPEN ACCOUNT		--	
653.	OPEN ACCOUNT		--	
654.	OPEN ACCOUNT		--	
698.	TOTAL EXPENSES & DEDUCTIONS			4793
699.	NET OPERATING PROFIT			8402
B.	OTHER BUSINESS INCOME			
480.	INTEREST INCOME			--
481.	RENTAL INCOME			200
482.	ROYALTIES INCOME			--
490.	PURCHASE DISCOUNTS			--
491.	VOLUME DISCOUNTS			--
492.	OTHER			--
397.	NET PROFIT			8602
C.	SUPPLEMENTARY MANAGEMENT INFORMATION			
D.	TOTAL HOURS OF LABOR REQUIRED			1400
E.	TOTAL INVESTMENT REQUIRED			$11589
F.	DEPARTMENTAL PROFIT PER WORKER UNIT			$12003
G.	DEPARTMENTAL PROFIT PER $1000 INVESTED			$ 725
H.	DEPARTMENTAL PROFIT PER $100 OF TOTAL COST			$ 32
I.	RATIO OF NET PROFIT TO NET SALES			24%

BUSINESS NAME Brown Furniture
DEPARTMENT Living Room & Dining Room
2.23

TABLE 9.02 DEPARTMENTAL INCOME AND EXPENSE STATEMENT

CODE NO. 23-00-000-001

400.	INCOME		
421.	MERCHANDISE SALES		32693
441.	SECONDARY SALES		--
460.	CUSTOMER LABOR		--
461.	OUTSIDE LABOR		--
462.	INTERNAL LABOR		--
463.	WARRANTY LABOR		--
472.	INTERNAL PARTS		--
473.	WARRANTY PARTS		
475.	NET SALES OF GOODS & SERVICES		32693
500.	COST OF GOODS OR SERVICES SOLD		
121.	BEGINNING INVENTORY	8100	
521.	MDSE. PURCHASED	21855	
541.	SECONDARY PURCHASES	--	
550.	FREIGHT-IN COSTS	315	
561.	SUBLET LABOR	--	
570.	COST OF LABOR	--	
A.	GOODS OR SERVICES AVAILABLE	30270	
121.	ENDING INVENTORY	10350	
598.	COST OF GOODS OR SERVICES SOLD		19920
599.	GROSS PROFIT FROM SALES		12773
600.	EXPENSES		
609.	PAID FAMILY LABOR	100	
610.	SALARIES & WAGES	2754	
611.	PAYROLL TAXES	278	
612.	ADVERTISING	150	
613.	HEAT	170	
614.	ELECTRICITY	92	
615.	WATER	--	
616.	TELEPHONE	41	
617.	INSURANCE	212	
618.	INTEREST	248	
619.	REPAIR & MAINT. - LAND	35	
620.	REPAIR & MAINT. - BUILDINGS	227	
621.	REPAIR & MAINT. - EQUIPMENT & FIX.	42	
622.	REPAIR & MAINT. - VEHICLES	--	
623.	GAS, OIL & GREASE	--	
624.	LEGAL & ACCOUNTING	71	
625.	PROPERTY TAXES	416	
626.	CONTRIBUTIONS & DONATIONS	--	
627.	SHOP EXPENSE	--	
628.	OFFICE EXPENSE	--	
629.	ENTERTAINMENT & PROMOTION	--	
630.	DUES & SUBCRIPTIONS	--	
631.	LICENSES	--	

2.24

BUSINESS NAME Brown Furniture
DEPARTMENT Living Room & Dining Room

TABLE 9.02 CONTINUED

CODE NO. 23-00-000-001

632.	TRAVEL & CONVENTION		--	
633.	POLICY ADJUSTMENT		--	
635.	DEPRECIATION - BUILDINGS	370		
636.	DEPRECIATION - EQUIP. & FIX.	129		
637.	DEPRECIATION - VEHICLES	--		
634.	DEPRECIATION TOTAL		499	
638.	BAD DEBTS		--	
639.	RENT		390	
640.	CASH SHORT/LONG		--	
641.	MISCELLANEOUS		--	
642.	DELIVERY		--	
643.	POSTAGE		--	
644.	SELLING EXPENSE		--	
645.	EMPLOYEE BENEFITS		--	
646.	TRASH & GARBAGE REMOVAL		--	
647.	BREAKAGE & SPOILAGE		--	
648.	COLLECTION EXPENSE		--	
649.	BANK CHARGES		--	
650.	SUPPLIES		56	
651.	OPEN ACCOUNT		--	
652.	OPEN ACCOUNT		--	
653.	OPEN ACCOUNT		--	
654.	OPEN ACCOUNT		--	
698.	TOTAL EXPENSES & DEDUCTIONS			5781
699.	NET OPERATING PROFIT			6992
B.	OTHER BUSINESS INCOME			
480.	INTEREST INCOME			--
481.	RENTAL INCOME			200
482.	ROYALTIES INCOME			--
490.	PURCHASE DISCOUNTS			--
491.	VOLUME DISCOUNTS			--
492.	OTHER			--
397.	NET PROFIT			7192
C.	SUPPLEMENTARY MANAGEMENT INFORMATION			
D.	TOTAL HOURS OF LABOR REQUIRED			1400
E.	TOTAL INVESTMENT REQUIRED			$19315
F.	DEPARTMENTAL PROFIT PER WORKER UNIT			$ 9989
G.	DEPARTMENTAL PROFIT PER $1000 INVESTED			362
H.	DEPARTMENTAL PROFIT PER $100 OF TOTAL COST			27
I.	RATIO OF NET PROFIT TO NET SALES			21%

BUSINESS NAME Brown Furniture
DEPARTMENT Kitchen
2.25

TABLE 9.03 DEPARTMENTAL INCOME AND EXPENSE STATEMENT

CODE NO. 23-00-000-001

400.	INCOME		
421.	MERCHANDISE SALES		32230
441.	SECONDARY SALES		--
460.	CUSTOMER LABOR		--
461.	OUTSIDE LABOR		--
462.	INTERNAL LABOR		--
463.	WARRANTY LABOR		--
472.	INTERNAL PARTS		--
473.	WARRANTY PARTS		--
475.	NET SALES OF GOODS & SERVICES		32230
500.	COST OF GOODS OR SERVICES SOLD		
121.	BEGINNING INVENTORY	7150	
521.	MDSE. PURCHASED	16602	
541.	SECONDARY PURCHASES	--	
550.	FREIGHT-IN COSTS	194	
561.	SUBLET LABOR	--	
570.	COST OF LABOR	--	
A.	GOODS OR SERVICES AVAILABLE	23946	
121.	ENDING INVENTORY	3575	
598.	COST OF GOODS OR SERVICES SOLD		20371
599.	GROSS PROFIT FROM SALES		11859
600.	EXPENSES		
609.	PAID FAMILY LABOR	100	
610.	SALARIES & WAGES	2754	
611.	PAYROLL TAXES	278	
612.	ADVERTISING	90	
613.	HEAT	102	
614.	ELECTRICITY	55	
615.	WATER	--	
616.	TELEPHONE	25	
617.	INSURANCE	128	
618.	INTEREST	153	
619.	REPAIR & MAINT. - LAND	21	
620.	REPAIR & MAINT. - BUILDINGS	136	
621.	REPAIR & MAINT. - EQUIPMENT & FIX.	34	
622.	REPAIR & MAINT. - VEHICLES	--	
623.	GAS, OIL & GREASE	--	
624.	LEGAL & ACCOUNTING	42	
625.	PROPERTY TAXES	250	
626.	CONTRIBUTIONS & DONATIONS	--	
627.	SHOP EXPENSE	--	
628.	OFFICE EXPENSE	--	
629.	ENTERTAINMENT & PROMOTION	--	
630.	DUES & SUBCRIPTIONS	--	
631.	LICENSES	--	

2.26

BUSINESS NAME Brown Furniture
DEPARTMENT Kitchen

TABLE 9.03 CONTINUED

CODE NO. 23-00-000-001

632.	TRAVEL & CONVENTION		--	
633.	POLICY ADJUSTMENT		--	
635.	DEPRECIATION - BUILDINGS	222		
636.	DEPRECIATION - EQUIP. & FIX.	129		
637.	DEPRECIATION - VEHICLES	-		
634.	DEPRECIATION TOTAL		351	
638.	BAD DEBTS		--	
639.	RENT		240	
640.	CASH SHORT/LONG		--	
641.	MISCELLANEOUS		--	
642.	DELIVERY		--	
643.	POSTAGE		--	
644.	SELLING EXPENSE		--	
645.	EMPLOYEE BENEFITS		--	
646.	TRASH & GARBAGE REMOVAL		--	
647.	BREAKAGE & SPOILAGE		--	
648.	COLLECTION EXPENSE		--	
649.	BANK CHARGES		--	
650.	SUPPLIES		35	
651.	OPEN ACCOUNT		--	
652.	OPEN ACCOUNT		--	
653.	OPEN ACCOUNT		--	
654.	OPEN ACCOUNT		--	
698.	TOTAL EXPENSES & DEDUCTIONS			4794
699.	NET OPERATING PROFIT			7065
B.	OTHER BUSINESS INCOME			
480.	INTEREST INCOME			--
481.	RENTAL INCOME			200
482.	ROYALTIES INCOME			--
490.	PURCHASE DISCOUNTS			--
491.	VOLUME DISCOUNTS			--
492.	OTHER			--
397.	NET PROFIT			7265
C.	SUPPLEMENTARY MANAGEMENT INFORMATION			
D.	TOTAL HOURS OF LABOR REQUIRED			1400
E.	TOTAL INVESTMENT REQUIRED			$11589
F.	DEPARTMENTAL PROFIT PER WORKER UNIT			$10093
G.	DEPARTMENTAL PROFIT PER $1000 INVESTED			$ 610
H.	DEPARTMENTAL PROFIT PER $100 OF TOTAL COST			$ 28
I.	RATIO OF NET PROFIT TO NET SALES			22%

BUSINESS NAME Brown Furniture
DEPARTMENT Miscellaneous

2.27

TABLE 9.04 DEPARTMENTAL INCOME AND EXPENSE STATEMENT

CODE NO. 23-00-000-001

400.	INCOME		
421.	MERCHANDISE SALES		37049
441.	SECONDARY SALES		--
460.	CUSTOMER LABOR		--
461.	OUTSIDE LABOR		--
462.	INTERNAL LABOR		--
463.	WARRANTY LABOR		--
472.	INTERNAL PARTS		--
473.	WARRANTY PARTS		--
475.	NET SALES OF GOODS & SERVICES		37049
500.	COST OF GOODS OR SERVICES SOLD		
121.	BEGINNING INVENTORY	6210	
521.	MDSE. PURCHASED	20935	
541.	SECONDARY PURCHASES	--	
550.	FREIGHT-IN COSTS	195	
561.	SUBLET LABOR	--	
570.	COST OF LABOR	--	
A.	GOODS OR SERVICES AVAILABLE	27340	
121.	ENDING INVENTORY	2415	
598.	COST OF GOODS OR SERVICES SOLD		24925
599.	GROSS PROFIT FROM SALES		12124
600.	EXPENSES		
609.	PAID FAMILY LABOR	100	
610.	SALARIES & WAGES	2754	
611.	PAYROLL TAXES	278	
612.	ADVERTISING	90	
613.	HEAT	102	
614.	ELECTRICITY	56	
615.	WATER	--	
616.	TELEPHONE	25	
617.	INSURANCE	128	
618.	INTEREST	153	
619.	REPAIR & MAINT. - LAND	21	
620.	REPAIR & MAINT. - BUILDINGS	136	
621.	REPAIR & MAINT. - EQUIPMENT & FIX.	34	
622.	REPAIR & MAINT. - VEHICLES	--	
623.	GAS, OIL & GREASE	--	
624.	LEGAL & ACCOUNTING	42	
625.	PROPERTY TAXES	249	
626.	CONTRIBUTIONS & DONATIONS	--	
627.	SHOP EXPENSE	--	
628.	OFFICE EXPENSE	--	
629.	ENTERTAINMENT & PROMOTION	--	
630.	DUES & SUBCRIPTIONS	--	
631.	LICENSES	--	

2.28

BUSINESS NAME Brown Furniture
DEPARTMENT Miscellaneous

TABLE 9.04 CONTINUED

CODE NO. 23-00-000-001

632.	TRAVEL & CONVENTION		--	
633.	POLICY ADJUSTMENT		--	
635.	DEPRECIATION - BUILDINGS	222		
636.	DEPRECIATION - EQUIP. & FIX.	129		
637.	DEPRECIATION - VEHICLES	-		
634.	DEPRECIATION TOTAL		351	
638.	BAD DEBTS		--	
639.	RENT		240	
640.	CASH SHORT/LONG		--	
641.	MISCELLANEOUS		--	
642.	DELIVERY		--	
643.	POSTAGE		--	
644.	SELLING EXPENSE		--	
645.	EMPLOYEE BENEFITS		--	
646.	TRASH & GARBAGE REMOVAL		--	
647.	BREAKAGE & SPOILAGE		--	
648.	COLLECTION EXPENSE		--	
649.	BANK CHARGES		--	
650.	SUPPLIES		35	
651.	OPEN ACCOUNT		--	
652.	OPEN ACCOUNT		--	
653.	OPEN ACCOUNT		--	
654.	OPEN ACCOUNT		--	
698.	TOTAL EXPENSES & DEDUCTIONS			4794
699.	NET OPERATING PROFIT			7330
B.	OTHER BUSINESS INCOME			
480.	INTEREST INCOME			--
481.	RENTAL INCOME			--
482.	ROYALTIES INCOME			--
490.	PURCHASE DISCOUNTS			--
491.	VOLUME DISCOUNTS			--
492.	OTHER			--
397.	NET PROFIT			7330
C.	SUPPLEMENTARY MANAGEMENT INFORMATION			
D.	TOTAL HOURS OF LABOR REQUIRED			1400
E.	TOTAL INVESTMENT REQUIRED			$11589
F.	DEPARTMENTAL PROFIT PER WORKER UNIT			$10471
G.	DEPARTMENTAL PROFIT PER $1000 INVESTED			$ 633
H.	DEPARTMENTAL PROFIT PER $100 OF TOTAL COST			$ 25
I.	RATIO OF NET PROFIT TO NET SALES			20%

BUSINESS NAME Brown Furniture
DEPARTMENT Used

2.29

TABLE 9.05 DEPARTMENTAL INCOME AND EXPENSE STATEMENT

CODE NO. 23-00-000-001

400.	**INCOME**		
421.	MERCHANDISE SALES		14685
441.	SECONDARY SALES		--
460.	CUSTOMER LABOR		--
461.	OUTSIDE LABOR		--
462.	INTERNAL LABOR		--
463.	WARRANTY LABOR		--
472.	INTERNAL PARTS		--
473.	WARRANTY PARTS		--
475.	NET SALES OF GOODS & SERVICES		14685
500.	**COST OF GOODS OR SERVICES SOLD**		
121.	BEGINNING INVENTORY	2550	
521.	MDSE. PURCHASED	4445	
541.	SECONDARY PURCHASES	--	
550.	FREIGHT-IN COSTS	315	
561.	SUBLET LABOR	--	
570.	COST OF LABOR	--	
A.	GOODS OR SERVICES AVAILABLE	7310	
121.	ENDING INVENTORY	1785	
598.	COST OF GOODS OR SERVICES SOLD		5525
599.	GROSS PROFIT FROM SALES		9160
600.	**EXPENSES**		
609.	PAID FAMILY LABOR	75	
610.	SALARIES & WAGES	2065	
611.	PAYROLL TAXES	208	
612.	ADVERTISING	150	
613.	HEAT	170	
614.	ELECTRICITY	92	
615.	WATER	-	
616.	TELEPHONE	41	
617.	INSURANCE	212	
618.	INTEREST	249	
619.	REPAIR & MAINT. - LAND	35	
620.	REPAIR & MAINT. - BUILDINGS	227	
621.	REPAIR & MAINT. - EQUIPMENT & FIX.	36	
622.	REPAIR & MAINT. - VEHICLES	-	
623.	GAS, OIL & GREASE	-	
624.	LEGAL & ACCOUNTING	71	
625.	PROPERTY TAXES	416	
626.	CONTRIBUTIONS & DONATIONS	-	
627.	SHOP EXPENSE	-	
628.	OFFICE EXPENSE	-	
629.	ENTERTAINMENT & PROMOTION	-	
630.	DUES & SUBCRIPTIONS	-	
631.	LICENSES	-	

2.30

BUSINESS NAME Brown Furniture
DEPARTMENT Used

TABLE 9.05 CONTINUED

CODE NO. 23-00-000-001

632.	TRAVEL & CONVENTION		--	
633.	POLICY ADJUSTMENT		--	
635.	DEPRECIATION - BUILDINGS	370		
636.	DEPRECIATION - EQUIP. & FIX.	128		
637.	DEPRECIATION - VEHICLES	-		
634.	DEPRECIATION TOTAL		498	
638.	BAD DEBTS		--	
639.	RENT		390	
640.	CASH SHORT/LONG		--	
641.	MISCELLANEOUS		--	
642.	DELIVERY		--	
643.	POSTAGE		--	
644.	SELLING EXPENSE		--	
645.	EMPLOYEE BENEFITS		--	
646.	TRASH & GARBAGE REMOVAL		--	
647.	BREAKAGE & SPOILAGE		--	
648.	COLLECTION EXPENSE		--	
649.	BANK CHARGES		--	
650.	SUPPLIES		57	
651.	OPEN ACCOUNT		--	
652.	OPEN ACCOUNT		--	
653.	OPEN ACCOUNT		--	
654.	OPEN ACCOUNT		--	
698.	TOTAL EXPENSES & DEDUCTIONS			4992
699.	NET OPERATING PROFIT			4168
B.	OTHER BUSINESS INCOME			
480.	INTEREST INCOME			--
481.	RENTAL INCOME			--
482.	ROYALTIES INCOME			--
490.	PURCHASE DISCOUNTS			--
491.	VOLUME DISCOUNTS			--
492.	OTHER			--
397.	NET PROFIT			4168
C.	SUPPLEMENTARY MANAGEMENT INFORMATION			
D.	TOTAL HOURS OF LABOR REQUIRED			1050
E.	TOTAL INVESTMENT REQUIRED			$19315
F.	DEPARTMENTAL PROFIT PER WORKER UNIT			$ 7864
G.	DEPARTMENTAL PROFIT PER $1000 INVESTED			$ 216
H.	DEPARTMENTAL PROFIT PER $100 OF TOTAL COST			$ 40
I.	RATIO OF NET PROFIT TO NET SALES			28%

BUSINESS NAME Brown Furniture
DEPARTMENT Truck (Service)
2.31

TABLE 9.06 DEPARTMENTAL INCOME AND EXPENSE STATEMENT

CODE NO. 23-00-000-001

400.	INCOME		
421.	MERCHANDISE SALES		--
441.	SECONDARY SALES		--
460.	CUSTOMER LABOR		1696
461.	OUTSIDE LABOR		--
462.	INTERNAL LABOR		--
463.	WARRANTY LABOR		--
472.	INTERNAL PARTS		--
473.	WARRANTY PARTS		--
475.	NET SALES OF GOODS & SERVICES		1696
500.	COST OF GOODS OR SERVICES SOLD		
121.	BEGINNING INVENTORY	--	
521.	MDSE. PURCHASED	--	
541.	SECONDARY PURCHASES	--	
550.	FREIGHT-IN COSTS	--	
561.	SUBLET LABOR	--	
570.	COST OF LABOR	--	
A.	GOODS OR SERVICES AVAILABLE	--	
121.	ENDING INVENTORY	--	
598.	COST OF GOODS OR SERVICES SOLD		--
599.	GROSS PROFIT FROM SALES		1696
600.	EXPENSES		
609.	PAID FAMILY LABOR	25	
610.	SALARIES & WAGES	689	
611.	PAYROLL TAXES	69	
612.	ADVERTISING	30	
613.	HEAT	34	
614.	ELECTRICITY	19	
615.	WATER	--	
616.	TELEPHONE	8	
617.	INSURANCE	42	
618.	INTEREST	500	
619.	REPAIR & MAINT. - LAND	7	
620.	REPAIR & MAINT. - BUILDINGS	45	
621.	REPAIR & MAINT. - EQUIPMENT & FIX.	5	
622.	REPAIR & MAINT. - VEHICLES	385	
623.	GAS, OIL & GREASE	1037	
624.	LEGAL & ACCOUNTING	15	
625.	PROPERTY TAXES	83	
626.	CONTRIBUTIONS & DONATIONS	--	
627.	SHOP EXPENSE	--	
628.	OFFICE EXPENSE	--	
629.	ENTERTAINMENT & PROMOTION	--	
630.	DUES & SUBCRIPTIONS	--	
631.	LICENSES	193	

2.32

BUSINESS NAME Brown Furniture
DEPARTMENT Truck (Service)

TABLE 9.06 CONTINUED

CODE NO. 23-00-000-001

632.	TRAVEL & CONVENTION		--	
633.	POLICY ADJUSTMENT		--	
635.	DEPRECIATION - BUILDINGS	74		
636.	DEPRECIATION - EQUIP. & FIX.	-		
637.	DEPRECIATION - VEHICLES	930		
634.	DEPRECIATION TOTAL		1004	
638.	BAD DEBTS		--	
639.	RENT		--	
640.	CASH SHORT/LONG		--	
641.	MISCELLANEOUS		--	
642.	DELIVERY		--	
643.	POSTAGE		--	
644.	SELLING EXPENSE		--	
645.	EMPLOYEE BENEFITS		--	
646.	TRASH & GARBAGE REMOVAL		--	
647.	BREAKAGE & SPOILAGE		--	
648.	COLLECTION EXPENSE		--	
649.	BANK CHARGES		--	
650.	SUPPLIES		--	
651.	OPEN ACCOUNT		--	
652.	OPEN ACCOUNT		--	
653.	OPEN ACCOUNT		--	
654.	OPEN ACCOUNT		--	
698.	TOTAL EXPENSES & DEDUCTIONS			4190
699.	NET OPERATING PROFIT			(2494)
B.	OTHER BUSINESS INCOME			
480.	INTEREST INCOME			--
481.	RENTAL INCOME			--
482.	ROYALTIES INCOME			--
490.	PURCHASE DISCOUNTS			--
491.	VOLUME DISCOUNTS			--
492.	OTHER			545
397.	NET PROFIT			(1949)
C.	SUPPLEMENTARY MANAGEMENT INFORMATION			
D.	TOTAL HOURS OF LABOR REQUIRED			350
E.	TOTAL INVESTMENT REQUIRED			$3863
F.	DEPARTMENTAL PROFIT PER WORKER UNIT			($13856)
G.	DEPARTMENTAL PROFIT PER $1000 INVESTED			($646)
H.	DEPARTMENTAL PROFIT PER $100 OF TOTAL COST			($60)
I.	RATIO OF NET PROFIT TO NET SALES			(147%)

2.33

Form 1040 US Department of the Treasury—Internal Revenue Service Individual Income Tax Return 1975

For the year January 1–December 31, 1975, or other taxable year beginning ...., 1975, ending ...., 19

Please print or type

Name (If joint return, give first names and initials of both) Al & Debra	Last name Brown	Your social security number 433 46 6124	For Privacy Act Notification, see page 2 of Instructions.
Present home address (Number and street, including apartment number, or rural route)		Spouse's social security no. 471 52 2729	For IRS use only ☐
City, town or post office, State and ZIP code Anoka, Minnesota 55303		Occupation Yours ▶ Owner-Store Spouse's ▶	

Requested by Census Bureau for Revenue Sharing ▶

A In what city, town, village, etc., do you live? Anoka

B Do you live within the legal limits of the city, town, etc.? ☒ Yes ☐ No ☐ Don't know

C In what county and State do you live? County Anoka State MN

D In what township do you live? (See page 4.)

Filing Status

1 ☐ Single (check only ONE box)

2 ☒ Married filing joint return (even if only one had income)

3 ☐ Married filing separately. If spouse is also filing give spouse's social security number in designated space above and enter full name here ▶

4 ☐ Unmarried Head of Household (See page 5 of Instructions) ▶

5 ☐ Qualifying widow(er) with dependent child (Year spouse died ▶ 19). See page 5 of Instructions.

Exemptions

6a Regular ☒ Yourself ☒ Spouse Enter number of boxes checked ▶ 2

b First names of your dependent children who lived with you Dan, Gloria, Mark Enter number ▶ 3

c Number of other dependents (from line 27) ▶

d Total (add lines 6a, b, and c) ▶ 5

e Age 65 or over ☐ Yourself ☐ Spouse Blind ☐ Yourself ☐ Spouse Enter number of boxes checked ▶

7 Total (add lines 6d and e) ▶ 5

8 **Presidential Election Campaign Fund** ▶ Do you wish to designate $1 of your taxes for this fund? Yes No
If joint return, does your spouse wish to designate $1? Yes No
Note: If you check the "Yes" box(es) it will not increase your tax or reduce your refund.

Please attach Copy B of Forms W-2 here

Income

9	Wages, salaries, tips, and other employee compensation (Attach Forms W-2. If unavailable, see page 3 of Instructions.)	9		
10a	Dividends (See pages 7 and 14 of Instructions) $........, 10b Less exclusion $........, Balance ▶ (If gross dividends and other distributions are over $400, list in Part I of Schedule B.)	10c		
11	Interest income. [If $400 or less, enter total without listing in Schedule B; If over $400, enter total and list in Part II of Schedule B]	11		
12	Income other than wages, dividends, and interest (from line 36)	12	33,783	--
13	Total (add lines 9, 10c, 11, and 12)	13	33,783	--
14	Adjustments to income (such as "sick pay," moving expenses, etc. from line 42)	14		
15	Subtract line 14 from line 13 (Adjusted Gross Income) (If less than $8,000, see page 8 of Instructions on "Earned Income Credit.")	15	33,783	--

- **If you do not itemize deductions and line 15 is under $15,000, find tax in Tables and enter on line 16a.**
- **If you itemize deductions or line 15 is $15,000 or more, go to line 43 to figure tax.**
- **CAUTION.** If you have unearned income and can be claimed as a dependent on your parent's return, check here ▶ ☐ and see page 7 of Instructions.

Tax, Payments and Credits

16a	Tax, check if from: ☐ Tax Tables ☐ Schedule D ☐ Tax Rate Schedule X, Y, or Z ☒ Schedule G OR ☐ Form 4726	16a	5,180	--
b	Credit for personal exemptions (multiply line 6d by $30)	b	150	--
c	Balance (subtract line 16b from line 16a)	c	5,030	--
17	Credits (from line 54)	17	193	--
18	Balance (subtract line 17 from line 16c)	18	4,837	--
19	Other taxes (from line 63)	19	1,114	--
20	Total (add lines 18 and 19)	20	5,951	--

21a	Total Federal income tax withheld (attach Forms W-2 or W-2P to front)	21a	
b	1975 estimated tax payments (include amount allowed as credit from 1974 return)	b	6,300
c	Earned income credit	c	
d	Amount paid with Form 4868	d	
e	Other payments (from line 67)	e	

Pay amount on line 23 in full with this return. Write social security number on check or money order and make payable to Internal Revenue Service.

22	Total (add lines 21a through e)	22		

Please attach Check or Money Order here

Balance Due or Refund

23	If line 20 is larger than line 22, enter **BALANCE DUE IRS** ▶ (Check here ▶ ☐, if Form 2210, Form 2210F, or statement is attached. See page 8 of Instructions.)	23	6,300	--
24	If line 22 is larger than line 20, enter amount **OVERPAID** ▶	24	349	--
25	Amount of line 24 to be **REFUNDED TO YOU** ▶	25	349	--
26	Amount of line 24 to be credited on 1976 estimated tax. ▶	26		

If all of overpayment (line 24) is to be refunded (line 25), make no entry on line 26.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Sign here

▶ Al Brown
Your signature Date

▶ Debra Brown
Spouse's signature (if filing jointly, BOTH must sign even if only one had income)

203

▶ Preparer's signature (other than taxpayer) Date

Address (and ZIP Code)

Other Dependents

(a) NAME	(b) Relationship	(c) Months lived in your home. If born or died during year, write B or D.	(d) Did dependent have income of $750 or more?	(e) Amount YOU furnished for dependent's support. If 100% write ALL.	(f) Amount furnished by OTHERS including dependent.
				$	$

27 Total number of dependents listed in column (a). Enter here and on line 6c . . . ►

Part I Income other than Wages, Dividends, and Interest

28	Business income or (loss) (attach Schedule C) . . .	28	31,463	--
29a	Net gain or (loss) from sale or exchange of capital assets (attach Schedule D) . . .	29a	1,175	--
29b	50% of capital gain distributions (not reported on Schedule D—see page 9 of Instructions) . .	29b		
30	Net gain or (loss) from Supplemental Schedule of Gains and Losses (attach Form 4797) . . .	30	545	--
31a	Pensions, annuities, rents, royalties, partnerships, estates or trusts, etc. (attach Schedule E) . .	31a	600	--
31b	Fully taxable pensions and annuities (not reported on Schedule E—see page 9 of Instructions) .	31b		
32	Farm income or (loss) (attach Schedule F) . . .	32		
33	State income tax refunds (does not apply if refund is for year in which you took the standard deduction—others see page 9 of Instructions) . . .	33		
34	Alimony received . . .	34		
35	Other (state nature and source—See page 9 of Instructions) ►	35	33,783	--
36	Total (add lines 28 through 35). Enter here and on line 12 . . . ►	36		

Part II Adjustments to Income

37	"Sick pay" (attach Form 2440 or other required statement) . . .	37		
38	Moving expense (attach Form 3903) . . .	38		
39	Employee business expense (attach Form 2106 or statement) . . .	39		
40a	Payments to a Keogh (H.R. 10) retirement plan . . .	40a		
40b	Payments to an individual retirement arrangement from attached Form 5329, Part III . . .	40b		
41	Forfeited interest penalty for premature withdrawal—see page 10 of Instructions . . .	41		
42	Total (add lines 37 through 41). Enter here and on line 14 . . . ►	42		

Part III Tax Computation (Do not use this part if you use the Tax Tables to find your tax.)

43	Adjusted gross income (from line 15) . . .	43	33,783	--
44	(a) If you itemize deductions, check here ► ☒ and enter total from Schedule A, line 41 and attach Schedule A . . . (b) If you do not itemize deductions and line 15 is $15,000 or more, check here ► ☐ and: If box on line 2 or 5 is checked, enter 16% of line 15 but not more than $2,600; if box on line 1 or 4 is checked, enter $2,300; if box on line 3 is checked, enter $1,300 . .	44	4,490	--
45	Subtract line 44 from line 43 . . .	45	29,293	--
46	Multiply total number of exemptions claimed on line 7, by $750 . . .	46	3,750	--
47	Taxable income. Subtract line 46 from line 45 . . .	47	25,543	--

(Figure your tax on the amount on line 47 by using Tax Rate Schedule X, Y, or Z, or if applicable, the alternative tax from Schedule D, income averaging from Schedule G, or maximum tax from Form 4726.) Enter tax on line 16e.

Part IV Credits

48	Retirement income credit (attach Schedule R) . . .	48		
49	Investment credit (attach Form 3468) . . .	49	193	--
50	Foreign tax credit (attach Form 1116) . . .	50		
51	Contributions to candidates for public office credit—see page 10 of Instructions . . .	51		
52	Work Incentive (WIN) credit (attach Form 4874) . . .	52		
53	Purchase of new principal residence credit (attach Form 5405) . . .	53		
54	Total (add lines 48 through 53). Enter here and on line 17 . . . ►	54	193	--

Part V Other Taxes

55	Tax from recomputing prior-year investment credit (attach Form 4255) . . .	55		
56	Tax from recomputing prior-year Work Incentive (WIN) credit (attach Schedule) . . .	56		
57	Minimum tax. Check here ► ☐, if Form 4625 is attached . . .	57		
58	Tax on premature distributions from attached Form 5329, Part V . . .	58		
59	Self-employment tax (attach Schedule SE) . . .	59	1,114	--
60	Social security tax on tip income not reported to employer (attach Form 4137) . . .	60		
61	Uncollected employee social security tax on tips (from Forms W–2) . . .	61		
62	Excess contribution tax from attached Form 5329, Part IV . . .	62		
63	Total (add lines 55 through 62). Enter here and on line 19 . . . ►	63	1,114	--

Part VI Other Payments

64	Excess FICA, RRTA, or FICA/RRTA tax withheld (two or more employers—see page 10 of Instructions) . . .	64		
65	Credit for Federal tax on special fuels, nonhighway gasoline and lubricating oil (attach Form 4136) . . .	65		
66	Credit from a Regulated Investment Company (attach Form 2439) . . .	66		
67	Total (add lines 64 through 66). Enter here and on line 21e . . . ►	67		

204

2.35

Schedules A&B—Itemized Deductions AND Dividend and Interest Income

(Form 1040)
Department of the Treasury
Internal Revenue Service

▶ Attach to Form 1040. ▶ See Instructions for Schedules A and B (Form 1040).

1975

Name(s) as shown on Form 1040: Al and Debra Brown

Your social security number: 433 466 6124

Schedule A—Itemized Deductions (Schedule B on back)

Medical and Dental Expenses (not compensated by insurance or otherwise) (See page 11 of Instructions.)

1 One half (but not more than $150) of insurance premiums for medical care. (Be sure to include in line 10 below)	140	--
2 Medicine and drugs	113	--
3 Enter 1% of line 15, Form 1040	338	--
4 Subtract line 3 from line 2. Enter difference (if less than zero, enter zero)	- 0	--
5 Enter balance of insurance premiums for medical care not entered on line 1	140	--
6 Enter other medical and dental expenses:		
a Doctors, dentists, nurses, etc.	497	--
b Hospitals	160	--
c Other (itemize—include hearing aids, dentures, eyeglasses, transportation, etc.) ▶	46	--
7 Total (add lines 4 through 6c)	843	--
8 Enter 3% of line 15, Form 1040	1,013	--
9 Subtract line 8 from line 7 (if less than zero, enter zero)	- 0	--
10 **Total** (add lines 1 and 9). Enter here and on line 35 ▶	140	--

Taxes (See page 11 of Instructions.)

11 State and local income	3,500	--
12 Real estate	--	
13 State and local gasoline (see gas tax tables)	76	--
14 General sales (see sales tax tables)	182	--
15 Personal property	20	--
16 Other (itemize) ▶		
17 **Total** (add lines 11 through 16). Enter here and on line 36 ▶	3,778	--

Interest Expense (See page 12 of Instructions.)

18 Home mortgage		
19 Other (itemize) ▶		
Auto & Snowmobile	231	--
20 **Total** (add lines 18 and 19). Enter here and on line 37 ▶	231	--

Contributions (See page 12 of Instructions for examples.)

21 a Cash contributions for which you have receipts, cancelled checks or other written evidence	341	--
b Other cash contributions. List donees and amounts. ▶		
22 Other than cash (see page 12 of instructions for required statement)		
23 Carryover from prior years		
24 **Total contributions** (add lines 21a through 23). Enter here and on line 38 ▶	341	--

Casualty or Theft Loss(es) (See page 13 of Instructions.)

Note: *If you had* **more than one loss**, *omit lines 25 through 28 and see page 13 of Instructions for guidance.*

25 Loss before insurance reimbursement		
26 Insurance reimbursement		
27 Subtract line 26 from line 25. Enter difference (if less than zero, enter zero)		
28 Enter $100 or amount on line 27, whichever is smaller		
29 **Casualty or theft loss** (subtract line 28 from line 27). Enter here and on line 39 ▶	- 0	--

Miscellaneous Deductions (See page 13 of Instructions.)

30 Alimony paid		
31 Union dues		
32 Expenses for child and dependent care services (attach Form 2441)		
33 Other (itemize) ▶		
34 **Total** (add lines 30 through 33). Enter here and on line 40 ▶	- 0	--

Summary of Itemized Deductions **A**

35 Total medical and dental—line 10	140	--
36 Total taxes—line 17	3,778	--
37 Total interest—line 20	231	--
38 Total contributions—line 24	341	--
39 Casualty or theft loss(es)—line 29	--	--
40 Total miscellaneous—line 34	--	--
41 **Total deductions** (add lines 35 through 40). Enter here and on Form 1040, line 44 ▶	4,490	--

2.36

SCHEDULE C (Form 1040)
Department of the Treasury
Internal Revenue Service

Profit or (Loss) From Business or Profession
(Sole Proprietorship)
Partnerships, Joint Ventures, etc., Must File Form 1065.
▶ Attach to Form 1040. ▶ See Instructions for Schedule C (Form 1040).

1975

Name(s) as shown on Form 1040: Al and Debra Brown
Social security number: 433 | 46 | 6124

A Principal business activity (see Schedule C Instructions) ▶ Sales ; product ▶ Furniture
B Business name ▶ Brown Furniture   C Employer identification number ▶
D Business address (number and street) ▶
City, State and ZIP code ▶ Anoka, Minnesota 55303

C

E Indicate method of accounting: (1) ☒ Cash (2) ☐ Accrual (3) ☐ Other ▶

	Yes	No
F Were you required to file Form W-3 or Form 1096 for 1975? (see Schedule C Instructions) . . . If "Yes," where filed ▶		x
G Was an Employer's Quarterly Federal Tax Return, Form 941, filed for this business for any quarter in 1975?	x	
H Method of inventory valuation ▶ Cost . Was there any substantial change in the manner of determining quantities, costs, or valuations between the opening and closing inventories? (If "Yes," attach explanation)		x

Income	1 Gross receipts or sales $ 153,203 Less: returns and allowances $ - 0 - Balance ▶	1	153,203	--
	2 Less: Cost of goods sold and/or operations (Schedule C-1, line 8)	2	92,396	--
	3 Gross profit	3	60,807	--
	4 Other income (attach schedule)	4		
	5 **Total income** (add lines 3 and 4)	5	60,807	--
Deductions	6 Depreciation (explain in Schedule C-3)	6	3,054	--
	7 Taxes on business and business property (explain in Schedule C-2)	7	1,664	--
	8 Rent on business property	8	1,500	--
	9 Repairs (explain in Schedule C-2)	9	1,617	--
	10 Salaries and wages not included on line 3, Schedule C-1 (exclude any paid to yourself)	10	15,658	--
	11 Insurance	11	850	--
	12 Legal and professional fees	12	283	--
	13 Commissions	13		
	14 Amortization (attach statement)	14		
	15 (a) Pension and profit-sharing plans (see Schedule C Instructions)	15(a)		
	(b) Employee benefit programs (see Schedule C Instructions)	(b)		
	16 Interest on business indebtedness	16	1,456	--
	17 Bad debts arising from sales or services	17		
	18 Depletion	18		
	19 Other business expenses (specify):			
	(a) Advertising 600 --			
	(b) Utilities 1,214 --			
	(c) Truck Expense 1,037 --			
	(d) Licenses 193 --			
	(e) Supplies 218 --			
	(f)			
	(g)			
	(h)			
	(i)			
	(j)			
	(k) Total other business expenses (add lines 19(a) through 19(j))	19(k)	3,262	--
	20 **Total deductions** (add lines 6 through 19(k))	20	29,344	--
	21 Net profit or (loss) (subtract line 20 from line 5). Enter here and on Form 1040, line 28. ALSO enter on Schedule SE, line 5(a)	21	31,463	--

SCHEDULE C-1.—Cost of Goods Sold and/or Operations (See Schedule C Instructions for Line 2)

1 Inventory at beginning of year (if different from last year's closing inventory, attach explanation)	1	29,610	--
2 Purchases $ 85,311 Less: cost of items withdrawn for personal use $ - 0 - Balance ▶	2	85,311	--
3 Cost of labor (do not include salary paid to yourself)	3		
4 Materials and supplies	4		
5 Other costs (attach schedule)	5		
6 Total of lines 1 through 5	6	114,921	--
7 Less: Inventory at end of year	7	22,525	--
8 Cost of goods sold and/or operations. Enter here and on line 2 above	8	92,396	--

SCHEDULE C-2.—Explanation of Lines 7 and 9

Line No.	Explanation	Amount	Line No.	Explanation	Amount
		$			$
7	Repair Land	140			
7	Repair Bldg.	907			
7	Repair Equip.	185			
7	Repair Vehicles	385			
		1,617			
9	R.E. Taxes	1,664			

SCHEDULE C-3.—Depreciation (See Schedule C Instructions for Line 6) If you need more space, you may use Form 4562.

Note: If depreciation is computed by using the Class Life (ADR) System for assets placed in service after December 31, 1970, or the Guideline Class Life System for assets placed in service before January 1, 1971, you must file Form 4832 (Class Life (ADR) System) or Form 5006 (Guideline Class Life System). Except as otherwise expressly provided in income tax regulations sections 1.167(a)–11(b)(5)(vi) and 1.167(a)–12, the provisions of Revenue Procedures 62–21 and 65–13 are not applicable for taxable years ending after December 31, 1970. (See Publication 534.)

Check box if you made an election this taxable year to use ☐ Class Life (ADR) System and/or ☐ Guideline Class Life System.

a. Group and guideline class or description of property	b. Date acquired	c. Cost or other basis	d. Depreciation allowed or allowable in prior years	e. Method of computing depreciation	f. Life or rate	g. Depreciation for this year
1 Total additional first-year depreciation (do not include in items below) →						
2 Depreciation from Form 4832	(See Note above)					
3 Depreciation from Form 5006						
4 Other depreciation:						
Buildings						
Furniture and fixtures						
Transportation equipment						
Machinery and other equipment						
Other (specify)						
		A T T A	C H E D			
5 Totals						3,054
6 Less amount of depreciation claimed in Schedule C-1, page 1						
7 Balance—Enter here and on page 1, line 6						3,054

SCHEDULE C-4.—Expense Account Information (See Schedule C Instructions for Schedule C-4)

Enter information with regard to yourself and your five highest paid employees. In determining the five highest paid employees, expense account allowances must be added to their salaries and wages. However, the information need not be submitted for any employee for whom the combined amount is less than $25,000, or for yourself if your expense account allowance plus line 21, page 1, is less than $25,000.

Name	Expense account	Salaries and Wages
Owner		
1		
2		
3		
4		
5		

207

Did you claim a deduction for expenses connected with:

(1) Entertainment facility (boat, resort, ranch, etc.)? ☐ Yes ☐ No (3) Employees' families at conventions or meetings? ☐ Yes ☐ No

(2) Living accommodations (except employees on business)? ☐ Yes ☐ No (4) Employee or family vacations not reported on Form W-2? ☐ Yes ☐ No

☆ U.S. GOVERNMENT PRINTING OFFICE : 1975—O-573-383

2.38

Form **4562**

Department of the Treasury
Internal Revenue Service

Depreciation

▶ See instructions.
▶ Attach this form to your return.

1975

Name(s) as shown on return: Al and Debra Brown

Identifying number: 433-46-6124

Use this form as an attachment to an individual, partnership, fiduciary, or corporation return. Include totals from line 5, below, on the corresponding lines of the regular depreciation schedule.

Check box if you made an election this taxable year to use ☐ Class Life (ADR) System and/or ☐ Guideline Class Life System.

a. Group and guideline class or description of property	b. Date acquired	c. Cost or other basis	d. Depreciation allowed or allowable in prior years	e. Method of computing depreciation	f. Life or rate	g. Depreciation for this year
1 Total additional first-year depreciation (do not include in items below) →						
2 Depreciation from Form 4832						
3 Depreciation from Form 5006						
4 Other depreciation:						
Buildings	1965	37000	14800	S.L.	4%	1480
Furniture and fixtures	1965	2700	1800	S.L.		180
Transportation equipment						
Machinery and other equipment						
Other (Specify)						
Dodge Van (Sold 8-25-75	1967	2100	1660	S.L.		140
Fork Lift	1969	3800	2280	S.L.		380
Chevy Pickup (Traded 6-28-76)	1970	3500	2700	S.L.		300
Cash Register	1972	800	292	S.L.		44
Ford Pickup	1973	2000	940	S.L.		270
Adding Machine	1974	200	11	S.L.		20
Chevy Truck	6 -1975	3400	-0-	S.L.		220
5 Totals						3054

Include these totals on the corresponding lines of your regular depreciation schedule. (For example: If depreciation applies to Schedule F (Form 1040), include the totals on Schedule F, line 59.)

Instructions

(Section references are to the Internal Revenue Code unless otherwise specified)

Note: *Instructions for Class Life (ADR) System and Guideline Class Life System are contained in separate instructions for Form 4832 (Class Life (ADR) System) and on Form 5006 (Guideline Class Life System). Also see Publication 534, Tax Information on Depreciation.*

Reasonable Allowance.—You may deduct a reasonable allowance for the exhaustion, wear and tear, and obsolescence of property used in a trade or business, or held for the production of income. The allowance is not allowed for stock in trade, inventories, land, and personal assets.

Charge off the cost (or other basis) to be recovered over the expected useful life of the property. Depreciation begins when the asset is placed in service and ends when it is retired from service.

In computing the depreciation basis for personal property other than livestock, you need not take into account salvage value that does not exceed 10 percent of the property cost or other basis. If the salvage value exceeds 10 percent, take only the excess into account. These provisions apply to property with a useful life of three or more years.

Depreciation Methods.—The various methods of depreciation you may use under section 167(b) are:

Straight Line Method.—Determine the depreciation for each year by dividing the cost or other basis of the property by its remaining useful life. Adjust the cost or other basis by depreciation allowed or allowable in prior years and applicable salvage value.

Declining Balance Method.—Apply a uniform rate each year to the remaining cost or other basis of property, determined at the beginning of the year. Do not adjust for salvage value, but stop depreciation when the unrecovered cost is reduced to salvage value. The depreciation rate for used property under this method may not exceed 1½ times the applicable straight line rate. *Note:*

(Continued on back)

Form **4562** (1975)

2.39

SCHEDULE SE
(Form 1040)
Department of the Treasury
Internal Revenue Service

Computation of Social Security Self-Employment Tax

▶ Each self-employed person must file a Schedule SE. ▶ Attach to Form 1040.
▶ See Earned Income Credit Instructions on page 8 and Instructions for Schedule SE (Form 1040).

1975

- If you had wages, including tips, of $14,100 or more that were subject to social security or railroad retirement taxes, do not fill in this schedule unless you are eligible for the Earned Income Credit. See Instructions.
- If you had more than one business, combine profits and losses from all your businesses and farms on this Schedule SE.

Important.—The self-employment income reported below will be credited to your social security record and used in figuring social security benefits.

NAME OF SELF-EMPLOYED PERSON (AS SHOWN ON SOCIAL SECURITY CARD): Al Brown

Social security number of self-employed person ▶ 433 46 6124

Business activities subject to self-employment tax (grocery store, restaurant, farm, etc.) ▶ Furniture Store

- If you have only farm income complete Parts I and III.
- If you have only nonfarm income complete Parts II and III.
- If you have both farm and nonfarm income complete Parts I, II, and III.

Part I Computation of Net Earnings from FARM Self-Employment

You may elect to compute your net farm earnings using the OPTIONAL METHOD, line 3, instead of using the Regular Method, line 2, if your gross profits are: (1) $2,400 or less, or (2) more than $2,400 and net profits are less than $1,600. However, lines 1 and 2 must be completed even if you elect to use the FARM OPTIONAL METHOD.

REGULAR METHOD			
1 Net profit or (loss) from:	(a) Schedule F, line 54 (cash method), or line 74 (accrual method)		
	(b) Farm partnerships		
2 Net earnings from farm self-employment (add lines 1(a) and (b))			
FARM OPTIONAL METHOD			
3 If gross profits from farming[1] are:	(a) Not more than $2,400, enter two-thirds of the gross profits		
	(b) More than $2,400 and the net farm profit is less than $1,600, enter $1,600		
4 Enter here and on line 12(a), the amount on line 2, or line 3 if you elect the farm optional method			

[1] Gross profits from farming are the total gross profits from Schedule F, line 28 (cash method), or line 72 (accrual method), plus the distributive share of gross profits from farm partnerships (Schedule K-1 (Form 1065), line 14) as explained in instructions for Schedule SE.

Part II Computation of Net Earnings from NONFARM Self-Employment

REGULAR METHOD			
5 Net profit or (loss) from:	(a) Schedule C, line 21. (Enter combined amount if more than one business.)	31,463	
	(b) Partnerships, joint ventures, etc. (other than farming)		
	(c) Service as a minister, member of a religious order, or a Christian Science practitioner. (Include rental value of parsonage or rental allowance furnished.) If you filed Form 4361, check here ▶ ☐ and enter zero on this line		
	(d) Service with a foreign government or international organization		
	(e) Other (See Form 1040 instructions for line 35.) Specify ▶		
6 Total (add lines 5(a) through (e))		31,463	
7 Enter adjustments if any (attach statement)			
8 Adjusted net earnings or (loss) from nonfarm self-employment (line 6, as adjusted by line 7)		31,463	

If line 8 is $1,600 or more OR if you do not elect to use the Nonfarm Optional Method, omit lines 9 through 11 and enter amount from line 8 on line 12(b), Part III.

Note: *You may use the nonfarm optional method (line 9 through line 11) only if line 8 is less than $1,600 and less than two-thirds of your gross nonfarm profits,[2] and you had actual net earnings from self-employment of $400 or more for at least 2 of the 3 following years: 1972, 1973, and 1974. The nonfarm optional method can only be used for 5 taxable years.*

SE

NONFARM OPTIONAL METHOD		
9 (a) Maximum amount reportable, under both optional methods combined (farm and nonfarm)	$1,600	00
(b) Enter amount from line 3. (If you did not elect to use the farm optional method, enter zero.)		
(c) Balance (subtract line 9(b) from line 9(a))		
10 Enter two-thirds of gross nonfarm profits[2] or $1,600, whichever is smaller		
11 Enter here and on line 12(b), the amount on line 9(c) or line 10, whichever is smaller		

[2] Gross profits from nonfarm business are the total of the gross profits from Schedule C, line 3, plus the distributive share of gross profits from nonfarm partnerships (Schedule K-1 (Form 1065), line 14) as explained in instructions for Schedule SE. Also, include gross profits from services reported on lines 5(c), (d), and (e), as adjusted by line 7.

Part III Computation of Social Security Self-Employment Tax

12 Net earnings or (loss): (a) From farming (from line 4)			
(b) From nonfarm (from line 8, or line 11 if you elect to use the Nonfarm Optional Method)		31,463	
13 Total net earnings or (loss) from self-employment reported on line 12. **(If Line 13 is less than $400, you are not subject to self-employment tax. Do not fill in rest of schedule.)**		31,463	
14 The largest amount of combined wages and self-employment earnings subject to social security or railroad retirement taxes for 1975 is		$14,100	00
15 (a) Total "FICA" wages and "RRTA" compensation			
(b) Unreported tips subject to FICA tax from Form 4137, line 9 or to RRTA			
(c) Total of lines 15(a) and (b)		-0-	
16 Balance (subtract line 15(c) from line 14)		14,100	
17 Self-employment income—line 13 or 16, whichever is smaller		14,100	
18 Self-employment tax. (If line 17 is $14,100.00, enter $1,113.90; if less, multiply the amount on line 17 by .079.) Enter here and on Form 1040, line 59		1,114	

☆ U.S. GOVERNMENT PRINTING OFFICE : 1975—O-575-387

2.40

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

(Examples of property to be reported on this Schedule are gains and losses on stocks, bonds, and similar investments, and gains (but not losses) on personal assets such as a home or jewelry.)

► Attach to Form 1040. ► See Instructions for Schedule D (Form 1040).

1975

Name(s) as shown on Form 1040: Al and Debra Brown

Social security number: 433 46 6124

Part I Short-term Capital Gains and Losses—Assets Held Not More Than 6 Months

	a. Kind of property and description (Example, 100 shares of "Z" Co.)	b. Date acquired (Mo., day, yr.)	c. Date sold (Mo., day, yr.)	d. Gross sales price	e. Cost or other basis, as adjusted (see instruction F) and expense of sale	f. Gain or (loss) (d less e)
1						

2	Enter your share of net short-term gain or (loss) from partnerships and fiduciaries	2	
3	Enter net gain or (loss), combine lines 1 and 2	3	
4(a)	Short-term capital loss component carryover from years beginning before 1970 (see Instruction I)	4(a)	( )
(b)	Short-term capital loss carryover attributable to years beginning after 1969 (see Instruction I)	(b)	( )
5	Net short-term gain or (loss), combine lines 3, 4(a) and (b)	5	

Part II Long-term Capital Gains and Losses—Assets Held More Than 6 Months

	a. Kind of property and description	b. Date acquired	c. Date sold	d. Gross sales price	e. Cost or other basis	f. Gain or (loss)
6	Real Estate - Lakeshore Property	1964	9-1975	3,000	650	2,350

7	Capital gain distributions	7	
8	Enter gain, if applicable, from Form 4797, line 4(a)(1) (see Instruction A)	8	
9	Enter your share of net long-term gain or (loss) from partnerships and fiduciaries	9	
10	Enter your share of net long-term gain from small business corporations (Subchapter S)	10	
11	Net gain or (loss), combine lines 6 through 10	11	2,350
12(a)	Long-term capital loss component carryover from years beginning before 1970 (see Instruction I)	12(a)	( )
(b)	Long-term capital loss carryover attributable to years beginning after 1969 (see Instruction I)	(b)	( )
13	Net long-term gain or (loss), combine lines 11, 12(a) and (b)	13	2,350

Part III Summary of Parts I and II

14	Combine the amounts shown on lines 5 and 13, and enter the net gain or (loss) here	14	2,350
15	**If line 14 shows a gain—** (a) Enter 50% of line 13 or 50% of line 14, whichever is smaller (see Part VI for computation of alternative tax). Enter zero if there is a loss or no entry on line 13	15(a)	1,175
	(b) Subtract line 15(a) from line 14. Enter here and on Form 1040, line 29a	(b)	1,175
16	**If line 14 shows a loss—** ► If losses are shown on BOTH lines 12(a) and 13, omit lines 16(a) and (b) and go to Part IV (see Instruction J). ► Otherwise, (a) Enter one of the following amounts: (i) If amount on line 5 is zero or a net gain, enter 50% of amount on line 14; (ii) If amount on line 13 is zero or a net gain, enter amount on line 14; or, (iii) If amounts on line 5 and line 13 are net losses, enter amount on line 5 added to 50% of amount on line 13	16(a)	
	(b) Enter here and enter as a (loss) on Form 1040, line 29a, the smallest of: (i) The amount on line 16(a); (ii) $1,000 ($500 if married and filing a separate return—if a loss is shown on line 4(a) or 12(a), see instruction N for a higher limit not to exceed $1,000); or, (iii) Taxable income, as adjusted (see Instruction M)	(b)	( )

2.41

Schedules E&R—Supplemental Income Schedule AND Retirement Income Credit Computation

(Form 1040)

Department of the Treasury
Internal Revenue Service

(From pensions and annuities, rents and royalties, partnerships, estates and trusts, etc.)
▶ Attach to Form 1040. ▶ See Instructions for Schedules E and R (Form 1040).

1975

Name(s) as shown on Form 1040: Al and Debra Brown

Your social security number: 433 46 6124

Schedule E—Supplemental Income Schedule (Complete Schedule R on back if eligible for retirement income credit)

Part I **Pension and Annuity Income.** If fully taxable, do not complete this part. Enter amount on Form 1040, line 31b. For one pension or annuity not fully taxable, complete this part. If you have more than one pension or annuity that is not fully taxable, attach a schedule and enter combined total of taxable portions on line 5.

1 Name of payer ....

2 Did your employer contribute part of the cost? . . . . . ☐ Yes ☐ No

If "Yes," is your contribution recoverable within 3 years of the annuity starting date? . . . ☐ Yes ☐ No

If "Yes," show: Your contribution $............, Contribution recovered in prior years . . $

3 Amount received this year . . . .

4 Amount excludable this year . . . .

5 Taxable portion (subtract line 4 from line 3) . . . .

Part II **Rent and Royalty Income.** If you need more space, you may use Form 4831.

Note: If you are reporting **farm rental** income here, see Schedule E Instructions to determine if you should also file Form 4835. *If at least two-thirds of your gross income is from farming or fishing, check this box* ☐.

(a) Kind and location of property If residential, also write "R"	(b) Total amount of rents	(c) Total amount of royalties	(d) Depreciation (explain below) or depletion (attach computation)	(e) Other expenses (Repairs, etc.—explain below)
Parking Lot	600			
Anoka, Minnesota 55303				
1 Totals	600			

2 Net income or (loss) from rents and royalties (column (b) plus column (c) less columns (d) and (e)) 600

Part III **Income or Losses from Partnerships, Estates or Trusts, Small Business Corporations.**

Note: If any of the partnership, estate or trust income reported below is from farming or fishing, see Schedule E Instructions to determine if you should also file Form 4835. *If at least two-thirds of your gross income is from farming or fishing, check this box* ☐.

Enter in column (b): P for Partnership, E for Estate or Trust, or S for Small Business Corporation.

(a) Name	(b)	(c) Employer identification number	(d) Income or (loss)	(e) Additional 1st year depreciation (applicable only to partnerships)
1 Totals				

2 Income or (loss). Total of column (d) less total of column (e) . . . .

TOTAL OF PARTS I, II, AND III (Enter here and on Form 1040, line 31a) . . . . ▶ 600

Explanation of Column (e), Part II

Item	Amount	Item	Amount	Item	Amount

Schedule for Depreciation Claimed in Part II Above. If you need more space or you computed depreciation under the Class Life (ADR) System or Guideline Class Life System, use Form 4562.

(a) Description of property	(b) Date acquired	(c) Cost or other basis	(d) Depreciation allowed or allowable in prior years	(e) Method of computing depreciation	(f) Life or rate	(g) Depreciation for this year
1 Total additional first-year depreciation (do not include in items below) →						
2 Totals						

E

2.42

Form **4797**

Department of the Treasury
Internal Revenue Service

Supplemental Schedule of Gains and Losses

Sales, Exchanges and Involuntary Conversions under
Sections 1231, 1245, 1250, 1251, and 1252

To be filed with Form 1040, 1041, 1065, 1120, etc.—See Separate Instructions

1975

Name(s) as shown on return: Al and Debra Brown

Identifying number: 433-46-6124

Part I Sales or Exchanges of Property Used in Trade or Business, and Involuntary Conversions (Section 1231)

SECTION A.—Involuntary Conversions Due to Casualty and Theft (See Instruction E)

a. Kind of property (if necessary, attach additional descriptive details not shown below)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price	e. Depreciation allowed (or allowable) since acquisition	f. Cost or other basis, cost of subsequent improvements (if not purchased, attach explanation) and expense of sale	g. Gain or (loss) (d plus e less f)
1						
2 Combine the amounts on line 1. Enter here, and on the appropriate line as follows						

(a) For all except partnership returns:

(1) If line 2 is zero or a gain, enter such amount in column g, line 3.

(2) If line 2 is a loss, enter the loss on line 5.

(b) For partnership returns: Enter the amount shown on line 2 above, on Schedule K (Form 1065), line 6.

SECTION B.—Sales or Exchanges of Property Used in Trade or Business and Certain Involuntary Conversions (Not Reportable in Section A) (See Instruction E)

3						
4 Combine the amounts on line 3. Enter here, and on the appropriate line as follows						

(a) For all except partnership returns:

(1) If line 4 is a gain, enter such gain as a long-term capital gain on Schedule D (Form 1040, 1120, etc.) that is being filed. See instruction E.

(2) If line 4 is zero or a loss, enter such amount on line 6.

(b) For partnership returns: Enter the amount shown on line 4 above, on Schedule K (Form 1065), line 7.

Part II Ordinary Gains and Losses

a. Kind of property (if necessary, attach additional descriptive details not shown below)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price	e. Depreciation allowed (or allowable) since acquisition	f. Cost or other basis, cost of subsequent improvements (if not purchased, attach explanation) and expense of sale	g. Gain or (loss) (d plus e less f)
5 Amount, if any, from line 2(a)(2)						
6 Amount, if any, from line 4(a)(2)						
7 Gain, if any, from page 2, line 21						545
8						
9 Combine amounts on lines 5 through 8. Enter here, and on the appropriate line as follows						545

(a) For all except individual returns: Enter the gain or (loss) shown on line 9, on the line provided for on the return (Form 1120, etc.) being filed. See instruction F for specific line reference.

(b) For individual returns:

(1) If the gain or (loss) on line 9, includes losses which are to be treated as an itemized deduction on Schedule A (Form 1040) (see instruction F), enter the total of such loss(es) here and include on Schedule A (Form 1040), line 29—identify as "loss from Form 4797, line 9(b)(1)" ....

(2) Redetermine the gain or (loss) on line 9, excluding the loss (if any) entered on line 9(b)(1). Enter here and on Form 1040, line 30 545

Part III Gain From Disposition of Property Under Sections 1245, 1250, 1251, 1252—Assets Held More than Six Months (See Separate Instructions)

Disregard lines 18 and 19 if there are no dispositions of farm property or farmland, or if this form is filed by a partnership.

10 Description of sections 1245, 1250, 1251, and 1252 property:	Date acquired (mo., day, yr.)	Date sold (mo., day, yr.)
(A) Dodge Van Used In Business	1967	8-24-75
(B)		
(C)		
(D)		
(E)		

Relate lines 10(A) through 10(E) to these columns ► ► ► ►	Property (A)	Property (B)	Property (C)	Property (D)	Property (E)
11 Gross sales price	845				
12 Cost or other basis and expense of sale	2,100				
13 Depreciation allowed (or allowable)	1,800				
14 Adjusted basis, line 12 less line 13	300				
15 Total gain, line 11 less line 14	545				
16 If section 1245 property:					
(a) Depreciation allowed (or allowable) after applicable date (see instructions)	1,800				
(b) Enter smaller of line 15 or 16(a)	545				
17 If section 1250 property:					
(a) Enter additional depreciation after 12/31/63 and before 1/1/70					
(b) Enter additional depreciation after 12/31/69					
(c) Enter smaller of line 15 or 17(b)					
(d) Line 17(c) times applicable percentage (see instruction G.4)					
(e) Enter any excess of line 15 over line 17(b)					
(f) Enter smaller of line 17(a) or 17(e)					
(g) Line 17(f) times applicable percentage (see instruction G.4)					
(h) Add lines 17(d) and 17(g)					
18 If section 1251 property:					
(a) If farmland, enter soil, water, and land clearing expenses for current year and the four preceding years					
(b) If farm property other than land, subtract line 16(b) from line 15; OR, if farmland, enter smaller of line 15 or 18(a) (see instruction G.5)					
(c) Excess deductions account (see instruction G.5)					
(d) Enter smaller of line 18(b) or 18(c)					
19 If section 1252 property:					
(a) Enter soil, water, and land clearing expenses made after 12/31/69					
(b) Enter amount from line 18(d), if none enter a zero					
(c) Enter any excess of line 19(a) over line 19(b)					
(d) Line 19(c) times applicable percentage (see instruction G.5)					
(e) Line 15 less line 19(b)					
(f) Enter smaller of line 19(d) or 19(e)					

Summary of Part III Gains (Complete Property columns (A) through (E) through line 19(f) before going to line 20)

20 Total gains for all properties (add columns (A) through (E), line 15)	545
21 Add columns (A) through (E), lines 16(b), 17(h), 18(d), and 19(f). Enter here and on line 7	545
22 Subtract line 21 from line 20. Enter here and in appropriate Section in Part I (see instructions E and G.2)	

☆ U.S. GOVERNMENT PRINTING OFFICE 1975—O-575-393

2.44

Form **3468**

Department of the Treasury
Internal Revenue Service

Computation of Investment Credit

▶ Attach to your tax return

1975

Name: Al and Debra Brown

Identifying number as shown on page 1 of your tax return: 433-46-6124

Note: *Include your share of investment in property made by a partnership, estate, trust, small business corporation, or lessor.*

1 Qualified investment in property acquired or constructed prior to January 22, 1975 and placed in service during the taxable year. (See instructions C and D for eligible property.)

Type of property	Line	(1) Life years	(2) Cost or basis (See instruction G)	(3) Applicable percentage	(4) Qualified investment (Column 2 x column 3)
New property	(a)	3 or more but less than 5		33⅓	
	(b)	5 or more but less than 7		66⅔	
	(c)	7 or more		100	
Used property (See instructions for dollar limitation)	(d)	3 or more but less than 5		33⅓	
	(e)	5 or more but less than 7		66⅔	
	(f)	7 or more		100	

2 Add lines 1(a) through (f)	
3 7% of line 2 (4% for public utility property)	

4 Qualified investment in property acquired or constructed after January 21, 1975 and placed in service during the taxable year, and qualified progress expenditures made after January 21, 1975.

Type of property		Line	(1) Life years	(2) Cost or basis	(3) Applicable percentage	(4) Qualified investment
New property		(a)	3 or more but less than 5		33⅓	
		(b)	5 or more but less than 7	2,900	66⅔	1,933
		(c)	7 or more		100	
Qualified progress expenditures	1974	(d)	7 or more		20	
	1975	(e)	7 or more		20	
Used property (See instructions for dollar limitation)		(f)	3 or more but less than 5		33⅓	
		(g)	5 or more but less than 7		66⅔	
		(h)	7 or more		100	

5 Add lines 4(a) through (h)		1,933
6 10% of line 5		193
7 Electing corporations with qualifying employee stock ownership plan—Enter 1% of line 5. (Attach election statement.)		
8 Carryback and carryover of unused credit(s). (See instruction F and instruction for line 8—attach computation.)		
9 Tentative investment credit—Add lines 3, 6, 7, and 8		193
Limitation		
10 (a) Individuals—Enter amount from line 16(c), page 1, Form 1040 (b) Estates and trusts—Enter amount from line 24 or 25, page 1, Form 1041 (c) Corporations—Enter amount from line 9, Schedule J, page 3, Form 1120		5,030
11 Less:		
(a) Foreign tax credit		
(b) Retirement income credit (individuals only)		
(c) Tax on lump-sum distributions. (See instruction for line 11.)		
12 Total—Add lines 11(a), (b), and (c)		
13 Line 10 less line 12		5,030
14 (a) Enter amount on line 13 or $25,000, whichever is lesser. (Married persons filing separately, controlled corporate groups, estates, and trusts, see instruction for line 14.)		5,030
(b) If line 13 exceeds line 14(a), enter 50% of the excess. (For public utility property, see section 46(a)(6).)		
15 Total—Add lines 14(a) and (b)		5,030
16 Investment credit—Amount from line 9 or line 15, whichever is lesser (enter here and on line 49, Form 1040; line 10(b), Schedule J, page 3, Form 1120; or the appropriate line on other returns)		193

Schedule A.—If any part of your investment in lines 1 or 4 above was made by a partnership, estate, trust, small business corporation, or lessor, complete the following statement and identify property qualifying for the 7% or 10% investment credit and qualified progress expenditures.

Name (Partnership, estate, trust, etc.)	Address	Property New	Property Used	Life years
		$	$	

If property is disposed of prior to the life years used in computing the investment credit, see instruction E.

☆ U.S. GOVERNMENT PRINTING OFFICE : 1975—O-575-142 36-2608-687

2.45

SCHEDULE G
(Form 1040)
Department of the Treasury
Internal Revenue Service

Income Averaging

► See instructions on pages 3 and 4.
► Attach to Form 1040.

1975

Name(s) as shown on Form 1040	Your social security number
Al and Debra Brown	433 46 6124

Taxable Income and Adjustments

	(a) Computation year 1975	(b) 1st preceding base period year 1974	(c) 2d preceding base period year 1973	(d) 3d preceding base period year 1972	(e) 4th preceding base period year 1971
1 Taxable income (see Specific Instructions on page 4)	25,543	9,679	7,500	3,250	4,575
2 Income earned outside of the United States or within U.S. possessions and excluded under sections 911 and 931 (see Specific Instructions on page 4)					
3 Excess community income and certain amounts received by owner-employees subject to a penalty under section 72(m)(5) (see Specific Instructions on page 4)					
4 Accumulation distributions subject to section 668(a) (see Form 4970). (Enter amount(s) on this line only if the distribution has been included in taxable income on line 1.)					
5 Adjusted taxable income or base period income. (Line 1 plus line 2, less lines 3 and 4.) If less than zero, enter zero	25,543	9,679	7,500	3,250	4,575

Computation of Averagable Income

6 Adjusted taxable income from line 5, column (a)	6	25,543
7 30% of the sum of line 5, columns (b), (c), (d), and (e)	7	7,501
8 Averagable income (line 6 less line 7)	8	18,042

Complete the remaining parts of this form only if line 8 is more than $3,000. If $3,000 or less, you do not qualify for income averaging. Do not fill in rest of form.

G

Computation of Tax

9 Amount from line 7			9	7,501
10 20% of line 8			10	3,608
11 Total (add lines 9 and 10)			11	11,109
12 Amount from line 3, column (a), less any income subject to a penalty under section 72(m)(5) which was included in line 3			12	
13 Total (add lines 11 and 12)			13	11,109
14 Tax on amount on line 13			14	2,064
15 Tax on amount on line 11	15	2,064		
16 Tax on amount on line 9	16	1,285		
17 Difference (line 15 less line 16)	17	779		
18 Multiply the amount on line 17 by 4			18	3,116
19 Tax (add lines 14 and 18). Enter here and on Form 1040, line 16a. Also check Schedule G box on Form 1040, line 16a			19	5,180

2.46

Name	Social Security Number
Al Brown	433 46 6124

> ***While we have included the payment vouchers you will need to make your estimated tax payments for 1976, we have been unable to provide a worksheet at this time because of pending tax legislation which could affect your 1976 income and tax.***
>
> ***We will do our best to provide you with a worksheet, instructions and information as soon as possible after we know the outcome of proposed legislation.***

Amended Computation

(Use if your estimated tax substantially changes after you file your first declaration–voucher.)

1 Amended estimated tax. Enter here and in Block A on declaration–voucher	
2 Less:	
(a) Amount of last year's overpayment elected for Credit to 1976 estimated tax and applied to date .	
(b) Payments made on 1976 declarations .	
(c) Total of lines 2(a) and 2(b)	
3 Unpaid balance (line 1 less line 2(c)) . .	
4 Amount to be paid (line 3 divided by number of remaining installments). Enter here and on line 1 of declaration–voucher . . .	

Record of Estimated Tax Payments

Voucher number	Date (a)	Amount (b)	1975 overpayment credit applied to installment (c)	Total amount paid and credited from Jan. 1 through the installment date shown. Add (b) and (c) (d)
1				
2				
3				
4				
Total . . . . . ▶				

Detach here

Form **1040-ES**
Department of the Treasury
Internal Revenue Service

Estimated Tax Declaration–Voucher for Individuals—1976

(To be used for making declaration and payment)

Voucher **4**
(Calendar year—Due Jan. 17, 1977)

*A. Estimated tax or amended estimated tax for the year ending 12-1976 (month and year)
$ 6,300

*B. Overpayment from last year credited to estimated tax for this year
$ -0-

1. Amount of this installment . . . ▶	$ 1,575
2. Amount of any unused overpayment credit applied to this installment (See Instruction 9) . . . . ▶	-0-
3. Amount of this installment payment (line 1 less line 2) . . . . ▶	$ 1,575

If this is an original declaration–voucher, file even if line 3 is zero.

*Sign here ▶ Your Signature

▶ Spouse's signature (if joint declaration)

If fiscal year taxpayer, see Instruction 11.

* Complete only if this is an original or amended declaration and your total estimated tax for the year is $100.00 or more.

Return this voucher with check or money order payable to the Internal Revenue Service. For where to file your declaration–voucher, see Instruction 5.

Please type or print

Your social security number: 433-46-6124

Spouse's number, if joint declaration:

First name and middle initial (of both spouses if joint declaration): Al

Last name: Brown

Address (Number and street):

City, State, and ZIP code 216

2.47

Form **1040-ES**
Department of the Treasury
Internal Revenue Service

Estimated Tax Declaration–Voucher for Individuals—1976

(To be used for making declaration and payment)

Voucher **3**
(Calendar year—Due Sept. 15, 1976)

*A. Estimated tax or amended estimated tax for the year ending 12-1976 (month and year) $ 6,300

*B. Overpayment from last year credited to estimated tax for this year $ -0-

1. Amount of this installment . . . ▶ $ 1,575
2. Amount of any unused overpayment credit applied to this installment (See Instruction 9) . . . . ▶ -0-
3. Amount of this installment payment (line 1 less line 2) . . . . ▶ $ 1,575

If this is an original declaration–voucher, file even if line 3 is zero.

*Sign here ▶ Your Signature
▶ Spouse's signature (if joint declaration)

If fiscal year taxpayer, see Instruction 11.

* Complete only if this is an original or amended declaration and your total estimated tax for the year is $100.00 or more.

Return this voucher with check or money order payable to the Internal Revenue Service. For where to file your declaration–voucher, see Instruction 5.

Please type or print

Your social security number: 433-46-6124
Spouse's number, if joint declaration:
First name and middle initial (of both spouses if joint declaration): Al
Last name: Brown
Address (Number and street)
City, State, and ZIP code

Detach here

Form **1040-ES**
Department of the Treasury
Internal Revenue Service

Estimated Tax Declaration–Voucher for Individuals—1976

(To be used for making declaration and payment)

Voucher **2**
(Calendar year—Due June 15, 1976)

*A. Estimated tax or amended estimated tax for the year ending 12-1976 (month and year) $ 6,300

*B. Overpayment from last year credited to estimated tax for this year $ -0-

1. Amount of this installment . . . ▶ $ 1,575
2. Amount of any unused overpayment credit applied to this installment (See Instruction 9) . . . . ▶ -0-
3. Amount of this installment payment (line 1 less line 2) . . . . ▶ $ 1,575

If this is an original declaration–voucher, file even if line 3 is zero.

*Sign here ▶ Your Signature
▶ Spouse's signature (if joint declaration)

If fiscal year taxpayer, see Instruction 11.

* Complete only if this is an original or amended declaration and your total estimated tax for the year is $100.00 or more.

Return this voucher with check or money order payable to the Internal Revenue Service. For where to file your declaration–voucher, see Instruction 5.

Please type or print

Your social security number: 433-46-6124
Spouse's number, if joint declaration:
First name and middle initial (of both spouses if joint declaration): Al
Last name: Brown
Address (Number and street)
City, State, and ZIP code

Detach here

Form **1040-ES**
Department of the Treasury
Internal Revenue Service

Estimated Tax Declaration–Voucher for Individuals—1976

(To be used for making declaration and payment)

Voucher **1**
(Calendar year—Due April 15, 1976)

*A. Estimated tax for the year ending 12-1976 (month and year) $ 6,300

B. Overpayment from last year credited to estimated tax for this year $ -0-

1. Amount of this installment . . . ▶ $ 1,575
2. Amount of overpayment credit from last year (all or part) applied to this installment (See Instruction 9) . ▶ -0-
3. Amount of this installment payment (line 1 less line 2) . . . . ▶ $ 1,575

File this original declaration–voucher even if line 3 is zero.

Sign here ▶ Your Signature
▶ Spouse's signature (if joint declaration)

If fiscal year taxpayer, see Instruction 11.

* Do not file this declaration–voucher if your total estimated tax for the year is less than $100.00.

Return this voucher with check or money order payable to the Internal Revenue Service. For where to file your declaration–voucher, see Instruction 5.

Please type or print

Your social security number: 433-46-6124
Spouse's number, if joint declaration:
First name and middle initial (of both spouses if joint declaration): Al
Last name: Brown
Address (Number and street)
City, State, and ZIP code

2.48

FORM M-1 Minnesota Individual Income Tax Return 1975

For the year January 1-December 31, 1975, or other taxable year beginning ____, 1975, ending ____, 197_

Last Name: Brown
Your Social Security Number: 433 | 46 | 6124
Spouse's Social Security Number: 471 | 52 | 2729
Occupation Code: Self 174; Spouse
Do Not Write In The Space Above
First Name(s) and Initial(s): Al and Debra
Place label within block
Check box and enter name of Minnesota city or township in which you lived in 1975: ☒ City ☐ Township: Anoka
Present Home Address (Number and Street, including apartment number, or rural route)
County: Anoka
Minnesota School District Number: 11
City, Town or Post Office: Anoka
State: Minnesota
Zip Code: 55303
Enter former Name, Address or Status if changed in 1975
Date of Change

Print or type

PART I (✓) Box(es) that apply

1 ☐ Age 65 or Over or Disabled before 6/1/76 Homeowner or Renter
2 ☐ Renter Under Age 65 and not Disabled before 6/1/76
3 ☒ Homeowner Under Age 65 and not Disabled before 6/1/76

RESIDENCY — Check only one box
4 ☒ Minnesota Resident Full Year
5 ☐ Nonresident Full Year
6 ☐ Minnesota Resident Part Year
from ______ 1975 to ______ 1975

FILING STATUS — Check only one box
7 ☐ Single
8 ☒ Married, filing separately on this combined return
9 ☐ Married, filing joint return (even if only one had income)
10 ☐ Married, filing separate returns. Enter spouse's social security number above and enter first name below

MINNESOTA RESIDENTS WORKING IN WISCONSIN

11 $ ______ Husband, Joint or Single Person
12 $ ______ Wife Only

Was any of your Minnesota Income (Line 5) derived from wages or compensation for personal services performed in Wisconsin while a Minnesota resident? ☐ Yes ☐ No
If yes, enter amount(s) of Wisconsin Income to left.

MINNESOTA STATE ELECTIONS CAMPAIGN FUND

Self	Spouse	
13 ☐	17 ☐	Republican
14 ☐	18 ☐	Democratic-Farmer-Labor
15 ☐	19 ☐	General State Campaign Fund
16___ Code No	20___ Code No	Minor Party (Instr., Page 4)

If you wish to designate $1 of your taxes to this fund, check ONE of the boxes to indicate how you want your $1 distributed. If filing jointly or separately on a combined return, both spouses may designate $1 each. NOTE: This will not increase your tax or reduce your refund. DO NOT CHECK BOX if you have no tax liability on Line 13 below.

(✓) PERSONAL & DEPENDENT CREDITS (Instructions, Page 12)

	No. mos claimed	Credit claimed	
21 ☒ Self—$21	12	$ 21	
22 ☒ Spouse—$21	12	21	
23 ☐ 65 or over—Self—$21			
24 ☐ 65 or over—Spouse—$21			
25 ☐ Blind—Self—$25			
26 ☐ Blind—Spouse—$25			
27 ☐ Deaf—Self—$25			
28 ☐ Deaf—Spouse—$25			
29 ☐ Deaf—Dependent—$25 Each			
30 [redacted] 3	No. mos claimed		
Dependents—$21 each. List names and ages: Dan 13	12	21	
Gloria 11	12	21	
Marc 6	12	21	
31 TOTAL CREDITS		$ 105	

PART II

		[illegible]		Column B Husband, Joint or Single Person	
1 Federal Adjusted Gross Income (Line 15 of Federal Form 1040 or Line 12 of Short Form 1040A. (Instructions, Page 5))	1	♦		♦ 33,783	
2 Additions: (a) Federal Income Tax Refunds Received in 1975 (Instructions, Page 5)	2a	♦		♦	
(b) Other additions (Instructions, Page 5—Attach explanation)	2b	♦		♦	
3 Add Lines 1, 2a & 2b	3			33,783	
4 Subtractions (Instructions, Page 5—Attach explanation)	4	♦		♦	
5 Minnesota Gross Income (Line 3 less Line 4)	5			33,783	
6 Federal Tax Deduction (Instructions, Page 6—Attach explanation if not same as amount(s) on Wage and Tax Statements)	6	♦		♦ 4,650	
7 Minnesota Adjusted Gross Income (Line 5 less Line 6)	7			29,133	
8 Deductions—Enter the larger of 8 (a) or 8 (b): (a) 10% of Line 7 or $1,000 whichever is less or; (b) Itemized Deductions from Page 2.	8	♦		♦ 1,973	
9 Minnesota Taxable Income (Line 7 less Line 8)	9			27,160	
10 Tax (Tax Table, Instructions, Page 12)	10	◇		◇ 3,279	

IMPORTANT NOTICE
All Taxpayers Must Complete Line 8. If Married, See Instructions Page 8

11 Combined Tax (Add Line 10, Columns A & B)				11	◇ 3,279
12 (a) Personal and Dependent Credits (From Schedule Above)	12a	♦ 105			
(b) Income Tax Paid to Other States Credit (Instructions, Page 10)	12b	♦			
(c) Pollution Control Credit (Attach Schedule PC)	12c	♦			
(d) Political Contribution Credit (From Schedule B, Page 2)	12d	♦			
(e) Low Income Credit (Attach Schedule M-1D)	12e	♦		Total of 12a, b, c, d & e ♦ 12	105
13 1975 Income Tax (Line 11 less Line 12. If Line 12 is larger than Line 11, enter "NONE")				13	◇ 3,174
14 (a) 1975 Minn. Income Tax Withheld (Attach Wage and Tax Statements)	14a	♦			
(b) Income—Adjusted Homestead Credit and Special Property Tax (Freeze) Credit (Renters, Senior Citizens and Disabled Persons Only Attach Form M-1HC)	14b	♦			
(c) Exempt Agricultural Electricity Credit (Attach Schedule EAC)	14c	♦			
(d) Payments on 1975 Estimated Tax (Instructions, Page 4)	14d	♦ 3,500		Total of 14a, b, c & d ♦ 14	3,500
15 If Line 13 is larger than Line 14, enter **BALANCE OF TAX DUE** (Pay in full with return. Make check or money order payable to "Commissioner of Revenue." Enter Social Security Number on Remittance.)				15	$
16 If Line 14 is larger than Line 13, enter **AMOUNT OF REFUND**				16	$ 326

STOP Do not complete Line 17 unless you want all or part of your refund credited to your 1976 Estimated Tax. In such case include Form M-14 with this Return.

17 Line 16 to be: Refunded $______ Credited to 1976 Estimated Tax $______

MAIL RETURN TO:
Minn. Individual Income Tax
Centennial Office Bldg.
St. Paul, Minn. 55145

Do Not Write In This Space

TAXPAYER—I declare under the penalties of criminal liability for willfully making a false return, that this return is to the best of my knowledge and belief, true, correct and complete. I hereby confess judgment to the State of Minnesota for the amount of the tax shown due hereon, to the extent not timely paid. PREPARER—This return is to the best of my knowledge and belief, true, correct and complete.

Sign Here
Al Brown
Your signature ____ Date ____
Debra Brown
Spouse's signature (If Joint or Combined Return, BOTH must sign)

Signature of preparer other than taxpayer ____ Date ____ Tel. No. & Area Code ____
Address, City, State, Zip Code

218

Please Attach Wage and Tax Statement(s) Here (Do Not Staple Check)

2.49

SCHEDULE A—ITEMIZED DEDUCTIONS (See Instructions for General and Special Limitations—Describe deductions and show to whom paid)

A-1 MEDICAL AND DENTAL EXPENSES (Not compensated by insurance or otherwise) (Instructions, Page 8)

Insurance premiums for medical care	$ 281	
Medicine & Drugs	113	
Hospitals	160	
Doctors, Dentists, Nurses, etc.	497	
Other: Itemize other medical and dental expenses. Include hearing aids, dentures, eyeglasses, etc. DO NOT include medical transportation expenses.		
Eyeglasses	46	
TOTAL MEDICAL AND DENTAL EXPENSES	$ 1,097	

A-2 TAXES (Instructions, Page 8)

Real Estate Taxes on Minnesota Property	$	
Minnesota Gas Tax 1/1/75 thru 5/31/75— 7¢ per gal. 6/1/75 thru 12/31/75— 9¢ per gal. (Use Federal Tables)	76	
General Sales Tax (Use Federal Tables)	182	
Minnesota Car License (including wheelage tax)	30	
Federal Telephone Tax	16	
Other (Itemize. Do NOT include Federal or State income taxes)		
TOTAL TAXES	$ 304	

A-3 INTEREST EXPENSE (Instructions, Page 8)

Home Mortgage on Minnesota Property	$	
Charge Accounts		
Other (Itemize)		
Auto and Snowmobile	231	
TOTAL INTEREST EXPENSE	$ 231	

A-4 CONTRIBUTIONS (Instructions, Page 8)

Cash contributions for which you have receipts, cancelled checks or other written evidence	$ 341	
Other cash contributions (List donees and amounts)		
Other than cash (Instructions, Page 8)		
Political Contributions (You may not take this deduction if you are claiming the Political Contribution Credit on Line 12c, Page 1 (Instructions, Page 11).)		
TOTAL CONTRIBUTIONS	$ 341	

A-5 CASUALTY OR THEFT LOSS(ES) (Instructions Page 9) (Attach explanation)

Loss before Insurance reimbursement	$	
Less: Insurance reimbursement		
CASUALTY OR THEFT LOSS(ES)	$	

A-6 MISCELLANEOUS DEDUCTIONS (Instructions, Page 9)

Alimony paid	$	
Union dues		
Tax Return Preparation Fee		
Expenses for child and dependent care (NOTE: The Minnesota deduction may be different than on your Federal return. (Instructions, Page 9))		
Other (Itemize)		
TOTAL MISCELLANEOUS DEDUCTIONS	$	

SUMMARY OF ITEMIZED DEDUCTIONS

1 MEDICAL AND DENTAL EXPENSES (From A-1)	$ 1,097	
2 TAXES (From A-2)	304	
3 INTEREST EXPENSE (From A-3)	231	
4 CONTRIBUTIONS (From A-4)	341	
5 CASUALTY OR THEFT LOSS(ES) (From A-5)		
6 MISCELLANEOUS DEDUCTIONS (From A-6)		
7 TOTAL ITEMIZED DEDUCTIONS (Add Lines 1 through 6 above) (Enter here and on Page 1, Part II, Line 8)	$ 1,973	

SCHEDULE B—POLITICAL CONTRIBUTION CREDIT (Instructions, Page 11)

IMPORTANT NOTE—You may not take this credit if you are claiming the Political Contribution Deduction under A-4 above.

1. Credit for Contributions to a Political Candidate(s)—(Limited to 50% of contribution but not more than $12.50 (or $25 if filing a combined or joint return))	$	
2. Credit for Contributions to a Political Party(s)—(Limited to 50% of contribution but not more than $5 (or $10 if filing a combined or joint return))		
3. Total Political Contribution Credit (Line 1 plus Line 2 but not more than $12.50 (or $25 if filing a combined or joint return). Enter here and on Page 1, Part II, Line 12d.) 219	$	

2.50

Schedule M-1B FEDERAL TAX DEDUCTION SCHEDULE

Name(s) as shown on Form M-1	Your Social Security Number	Spouse's Social Security Number
Al & Debra Brown	433 46 6124	471 52 2729

DO NOT COMPLETE THIS SCHEDULE IF THE AMOUNT TO BE CLAIMED ON LINE 6 IS ONLY THE FEDERAL INCOME TAX OR EXCESS F.I.C.A. WITHHELD AS SHOWN ON THE WAGE AND TAX STATEMENT(S) ATTACHED TO YOUR RETURN.		Date Paid Mo./Day/Yr.	COLUMN A WIFE ONLY	COLUMN B HUSBAND, JOINT OR SINGLE PERSO
1. Federal Income Tax Withheld in 1975	1		$	$
2. 1975 excess F.I.C.A. tax withheld (excess over $824.85 for each taxpayer)	2			
3. Overpayment of Federal tax for 1974 which was credited to your 1975 Estimated Tax. (Line 26 of 1974 Form 1040)	3			
4. 1975 Estimated Tax—(a) 1st installment paid in 1975	4a	4-15-75		1,575
—(b) 2nd installment paid in 1975	4b	6-15-75		1,575
—(c) 3rd installment paid in 1975	4c	9-15-75		1,575
—(d) 4th installment paid in 1975	4d			
5. Regulated Investment Company Credit (Line 66 of 1975 Form 1040)	5			
6. Balance paid On 1974 Federal Return. (Line 23 of 1974 Form 1040)	6			
7. Amount paid in 1975 for 1974 with "Application for Automatic Extension of Time to File U.S. Individual Income Tax Return." (Line 6 of 1974 Federal Form 4868)	7			
8. Credit for Federal tax on special fuels (Line 63 of 1974 Form 1040)	8			
9. 1974 Estimated Tax—installment(s) paid in 1975	9			750
10. Prior year(s) additional or delinquent tax paid in 1975. Specify year(s) ______	10			
11. Total of Lines 1 through 10	11		$	$ 5,475
12. (a) 1974 Self-employment Tax paid in 1975 (b) 1975 Self-employment Tax paid in 1975 — Total of a&b ▶	12			1,114
13. Federal Tax allowable (Line 11 minus Line 12)	13		$	$ 4,361
14. Self-employment Tax Deduction (a) Multiply Line 12(a) by 25.949 %	14a			
(b) Multiply Line 12(b) by 25.949 %	14b			289
15. FEDERAL TAX DEDUCTION (Add lines 13, 14a & 14b) (Enter on Line 6, Form M-1)	15		$	$ 4,650

	WIFE ONLY	HUSBAND, JOINT OR SINGLE PERSON
12. (a) 1974 Self-employment Tax paid in 1975	$	$
(b) 1975 Self-employment Tax paid in 1975		1,114

IMPORTANT NOTE If you (and/or your spouse) had income which is taxable on your Federal return, but not on your Minnesota return, an alloc
tion of Federal tax is necessary. See Page 6 and attach a schedule to your return, showing how the allocation is being mac

Cut on this line

SCHEDULE A—COMPUTATION OF 1976 ESTIMATED COMBINED MINNESOTA INCOME TAX

	Column A Wife Only	Column B Husband, Joint or Single Person
1 1976 Estimated Minnesota Gross Income Include your Federal income tax refund if a tax benefit was received	$	$
2 Less: Estimated Federal tax deduction for 1976		
3 Estimated 1976 Minnesota Adjusted Gross Income (Line 1 minus Line 2)		
4 (a) If you expect not to itemize deductions, enter lesser of 10% of Line 3 or $1,000 (b) If you expect to itemize deductions, enter total of such estimated deductions		
5 1976 Estimated Minnesota Taxable Net Income (Line 3 minus Line 4)		
6 Tax on Amount on Line 5 (computed from SCHEDULE OF TAX RATES below)		
7 Combined 1976 Estimated Minnesota Income Tax (Add Line 6, Column A and Column B)		

8 (a) Estimated Personal and Dependent Credits	$	Total of a, b, c, d & e
(b) Estimated Income Tax Paid to Other States Credit		
(c) Estimated Pollution Control Credit		
(d) Estimated Political Contribution Credit		
(e) Estimated Low Income Credit		
9 1976 Estimated Combined Minnesota Income Tax before Withholding & Credits (Line 7 minus Line 8)		
10 (a) Estimated 1976 Minnesota Income Tax Withheld or to be Withheld	$	Total of a,b & c.
(b) Estimated Income-Adjusted Homestead Credit and Special Property Tax (Freeze) Credit		
(c) Estimated allowable Exempt Agricultural Electricity Credit		
11 1976 Estimated Combined Minnesota Income Tax (Line 9 minus Line 10) (Enter on Line 1 of M—14)		$

SCHEDULE OF TAX RATES

If the amount on Line 5 is:	Enter on Line 6 above:
Not over $500	1.65 of such amount
Over $ 500 but not over $ 1,000	$ 8.00 plus 2.2% of the amount over $ 500
Over $ 1,000 but not over $ 2,000	$ 19.00 plus 3.5% of the amount over $ 1,000
Over $ 2,000 but not over $ 3,000	$ 54.00 plus 5.8% of the amount over $ 2,000
Over $ 3,000 but not over $ 4,000	$112.00 plus 7.3% of the amount over $ 3,000
Over $ 4,000 but not over $ 5,000	$185.00 plus 8.8% of the amount over $ 4,000
Over $ 5,000 but not over $ 6,000	$273.00 plus 10.2% of the amount over $ 5,000
Over $ 6,000 but not over $ 7,000	$375.00 plus 10.2% of the amount over $ 6,000
Over $ 7,000 but not over $ 8,000	$477.00 plus 11.5% of the amount over $ 7,000
Over $ 8,000 but not over $ 9,000	$592.00 plus 11.5% of the amount over $ 8,000
Over $ 9,000 but not over $10,000	$707.00 plus 12.8% of the amount over $ 9,000
Over $10,000 but not over $11,000	$835.00 plus 12.8% of the amount over $10,000
Over $11,000 but not over $12,000	$ 963.00 plus 12.8% of the amount over $11,000
Over $12,000 but not over $12,500	$1,091.00 plus 12.8% of the amount over $12,000
Over $12,500 but not over $13,000	$1,155.00 plus 14% of the amount over $12,500
Over $13,000 but not over $14,000	$1,225.00 plus 14% of the amount over $13,000
Over $14,000 but not over $15,000	$1,365.00 plus 14% of the amount over $14,000
Over $15,000 but not over $16,000	$1,505.00 plus 14% of the amount over $15,000
Over $16,000 but not over $17,000	$1,645.00 plus 14% of the amount over $16,000
Over $17,000 but not over $18,000	$1,785.00 plus 14% of the amount over $17,000
Over $18,000 but not over $19,000	$1,925.00 plus 14% of the amount over $18,000
Over $19,000 but not over $20,000	$2,065.00 plus 14% of the amount over $19,000
Over $20,000	$2,205.00 plus 15% of the amount over $20,000

Form M-14
(Rev. 7/75)

MINNESOTA DEPARTMENT OF REVENUE

DECLARATION OF ESTIMATED MINNESOTA INCOME TAX

YOUR SOCIAL SECURITY NUMBER	SPOUSE'S SOCIAL SECURITY NUMBER	YEAR ENDING MO	DY	YR
433-46-6124	471-52-2729	12	31	76

1. ESTIMATED COMBINED TAX FOR THIS YEAR (If less than $50, no declaration is required)	$ 3,500
2. COMPUTATION OF INSTALLMENTS IF THIS DECLARATION IS DUE TO BE FILED ON ☒ APRIL 15, ENTER 1/4 OF LINE 1 ☐ JUNE 15, ENTER 1/3 OF LINE 1 ☐ SEPT. 15, ENTER 1/2 OF LINE 1 ☐ JAN. 15, ENTER ALL OF LINE 1 IF YOU FILE YOUR RETURN ON A FISCAL YEAR BASIS, SEE ITEM 7 OF INSTRUCTIONS	$ 875
3. Overpayment from preceding year which you elect to apply to this declaration	
4. (A) To apply entire overpayment to 1st installment enter amount on Line 3 here (B) To apply overpayment equally to all installments, divide Line 3 by number of installments, enter amount here and check box . . ☐	$ 875
5 Amount to be paid with declaration—Line 2 less Line 4. If Line 4 is greater than Line 2 enter "None"	$

PAID WITH CHECK NUMBER ______

DATE ______

YOUR FILE COPY

KEEP THIS COPY FOR YOUR RECORDS

Form **1065**
Department of the Treasury
Internal Revenue Service

U.S. Partnership Return of Income

FOR CALENDAR YEAR 1975 or other taxable year beginning
.............................., 1975, and ending ...., 19......

1975

A Principal business activity (See page 7 of instructions)

B Principal product or service (See page 7 of instructions)

C Enter total assets from line 13, column (D), Schedule L
$ 90,184

Name
Brown Furniture

Number and street

City or town, State, and ZIP code
Anoka, Minnesota 55303

D Employer identification no.

E Business code no. (See page 7 of instructions)
5712

F Date business commenced
1965

IMPORTANT—Fill in all applicable lines and schedules. If the lines on the schedules are not sufficient, see Instruction P. Enter any items specially allocated to the partners on Schedule K, line 15, instead of the numbered lines on this page or in Schedules D through J. (See General Instruction O.)

INCOME	1a Gross receipts or sales $ 153,203 1b Less returns and allowances $ -0- Balance ▶	1c	153,203	
	2 Less: Cost of goods sold and/or operations (line 34, Schedule A)	2	92,614	
	3 Gross profit	3	60,589	
	4 Ordinary income (loss) from other partnerships, syndicates, etc. (attach statement)	4		
	5 Nonqualifying dividends (attach list—see Instruction 5)	5		
	6 Interest	6		
	7 Rents (Schedule H)	7	600	
	8 Royalties (attach schedule)	8		
	9 Net farm profit (loss) (attach Schedule F (Form 1040))	9		
	10 Net ordinary gain (loss) (Form 4797, line 9)	10	545	
	11 Other income (attach schedule)	11		
	12 **TOTAL** income (lines 3 through 11)	12	61,734	
DEDUCTIONS	13 Salaries and wages (other than to partners)	13	15,658	
	14 Payments to partners—Salaries and interest	14		
	15 Rent	15	1,500	
	16 Interest (attach schedule)	16	1,456	
	17 Taxes (attach schedule)	17	1,664	
	18 Bad debts (Schedule I if you use reserve method)	18		
	19 Repairs	19	1,617	
	20 Depreciation (Schedule J)	20	3,054	
	21 Amortization (attach schedule)	21		
	22 Depletion (attach schedule)	22		
	23a Retirement plans, etc. (other than amounts for partners—see Instruction 23a). (Enter number of plans ▶ ....)	23a		
	23b Employee benefit programs (see Instruction 23b)	23b		
	24 Other deductions (attach schedule)	24	4,177	
	25 **TOTAL** deductions (lines 13 through 24)	25	29,126	
	26 Ordinary income (loss) (line 12 less line 25) (see General Instruction G)	26	32,608	

Schedule A—COST OF GOODS SOLD AND/OR OPERATIONS (See Instruction 2)

27 Inventory at beginning of year (if different from last year's closing inventory, attach explanation)	27	29,610	
28a Purchases $ 85,311 28b Less cost of items withdrawn for personal use $ .... Balance ▶	28c	85,311	
29 Cost of labor	29		
30 Material and supplies	30		
31 Other costs (attach schedule)	31	218	
32 Total of lines 27 through 31	32	115,139	
33 Less: Inventory at end of year	33	22,525	
34 Cost of goods sold. Enter here and on line 2, above	34	92,614	

Inventory valuation method ▶

Was there any substantial change in the way you determined quantities, costs or valuations between the opening and closing inventories? ☐ Yes ☐ No
If "Yes," attach explanation.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. If prepared by a person other than partner or member, the preparer's declaration is based on all information of which the preparer has any knowledge.

▶ .... Signature of partner or member .... Date

▶ .... Signature of preparer other than partner or member .... Preparer's address .... Date

2.53

Schedule D—CAPITAL GAINS AND LOSSES (See Instructions for Schedule D)

Part I Short-term capital gains and losses—assets held 6 months or less

	a. Kind of property and description (Example, 100 shares of "Z" Co.)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price	e. Cost or other basis and expense of sale	f. Gain or (loss) (d less e)
1						
2	Partnership's share of net short-term gain or (loss), including specially allocated items, from other partnerships and from fiduciaries					
3	Net short-term gain or (loss) from lines 1 and 2. Enter here and on Schedule K (Form 1065), line 4					

Part II Long-term capital gains and losses—assets held more than 6 months

	a. Kind of property and description	b. Date acquired	c. Date sold	d. Gross sales price	e. Cost or other basis and expense of sale	f. Gain or (loss) (d less e)
4	Real Estate-Lot	1966	9-1975	3,000	650	2,350
5	Partnership's share of net long-term gain or (loss), including specially allocated items, from other partnerships and from fiduciaries					
6	Capital gain distributions					
7	Net long-term gain or (loss) from lines 4, 5, and 6. Enter here and on Schedule K (Form 1065), line 5					2,350

Schedule H—INCOME FROM RENTS

	a. Kind and location of property	b. Amount of rent	c. Depreciation (explain in Schedule J)	d. Repairs (attach schedule)	e. Other expenses (attach schedule)
	Parking Lot Anoka Minnesota 55303	600			
1	Totals	600			
2	Net income (loss) (column b less total of columns c, d, and e). Enter here and on page 1, line 7				600

Schedule I—BAD DEBTS (See Instruction 18)

a. Year	b. Trade notes and accounts receivable outstanding at end of year	c. Sales on account	Amount added to reserve		f. Amount charged against reserve	g. Reserve for bad debts at end of year
			d. Current year's provision	e. Recoveries		
1970.						
1971.						
1972.						
1973.						
1974.						
1975.						

Schedule J—DEPRECIATION (See Instruction 20)

If more space is needed use Form 4562. **Note:** If you compute depreciation by using the Class Life (ADR) System for assets placed in service after December 31, 1970, or the Guideline Class Life System for assets placed in service before January 1, 1971, file Form 4832 (Class Life (ADR) System or Form 5006 (Guidelines Class Life System)). Except as otherwise expressly provided in income tax regulations sections 1.167(a)-11(b)(5)(vi) and 1.167(a)-12, the provisions of Revenue Procedures 62-21 and 65-13 are not applicable for taxable years ending after December 31, 1970.

Check box if partnership made an election this taxable year to use ☐ Class Life (ADR) System and/or ☐ Guideline Class Life System.

a. Group and guideline class or description of property	b. Date acquired	c. Cost or other basis	d. Depreciation allowed or allowable in prior years	e. Method of computing depreciation	f. Life or rate	g. Depreciation for this year
1 Total additional first year depreciation (do not include in items below). (Enter here and on Sch. K, line 2) →						
2 Depreciation from Form 4832						
3 Depreciation from Form 5006						
4 Other depreciation:						
Buildings						
Furniture and fixtures						
Transportation equipment						
Machinery and other equipment						
Other (specify)						
			ATTACHED			
5 Totals						
6 Less amount of depreciation claimed in Schedules A and H						
7 Balance—Enter here and on page 1, line 20						

2.54

Schedule K—PARTNERS' SHARES OF INCOME, CREDITS, DEDUCTIONS, ETC.

Enter the total distributive amount for each applicable item listed below. Note:
Enter each partner's distributive share of partnership items on Schedule K–1.

State the number of partners in the partnership ▶	2
Partnership's distributive share items	**Total**
1 Salary, interest, and ordinary income (loss) (combine lines 14 and 26, page 1)	32,608
2 Additional first-year depreciation (Schedule J, line 1)	
3 Dividends qualifying for exclusion (attach list)	
4 Net short-term capital gain (loss) (Schedule D, line 3)	
5 Net long-term capital gain (loss) (Schedule D, line 7)*	2,350
6 Net gain (loss) from involuntary conversions due to casualty and theft under section 1231 (Form 4797, line 2)	
7 Net gain (loss) from sale or exchange of property used in trade or business and certain involuntary conversions under section 1231 (Form 4797, line 4)	
8 Net earnings (loss) from self-employment (Schedule N, line 10)	
9 Contributions (attach list)	
10 Expense account allowance	
11 Foreign taxes (attach schedule)	
12 Taxes paid by regulated investment companies on undistributed capital gains (attach schedule)	
13 (a) Payments on behalf of partners to a Keogh Plan	
(b) Payments on behalf of partners to an Individual Retirement Account, Annuity, or Bond	
14 Other (specify)	
15 Specially allocated items (attach schedule):	
(a) Short-term capital gain (loss)	
(b) Long-term capital gain (loss)*	
(c) Ordinary gain (loss)	
(d) Other	
16 Tax preference items:	
(a) Accelerated depreciation on real property	
(1) Low-income rental housing (section 167(k))	
(2) Other real property	
(b) Accelerated depreciation on personal property subject to a net lease	
(c) Amortization of certified pollution control facilities	
(d) Amortization of railroad rolling stock	
(e) Amortization of on-the-job training facilities	
(f) Amortization of child care facilities	
(g) Reserves for losses on bad debts of financial institutions	
(h) Depletion	
(i) Capital gains (losses):	
(1) Short-term (total of lines 4 and 15(a))	
(2) Long-term (total of lines 5 and 15(b))	2,350

17 Investment in property that qualifies for investment credit:

Property	Life Years		Qualified before January 22, 1975	Qualified after January 21, 1975
Basis of new investment property	(a) 3 or more but less than 5			
	(b) 5 or more but less than 7			2,900
	(c) 7 or more			
Qualified progress expenditures	(d) 7 or more	1974	▨	
	(e) 7 or more	1975	▨	
Cost of used investment property	(f) 3 or more but less than 5			
	(g) 5 or more but less than 7			
	(h) 7 or more			

*You must notify the partners of the amount of their individual distributive shares of long-term capital gains that may qualify as "subsection (d) gains." See section 1201(d).

Schedule L—BALANCE SHEETS (See General Instruction J)

ASSETS	Beginning of taxable year		End of taxable year	
	(A) Amount	(B) Total	(C) Amount	(D) Total
1 Cash		2,925		32,821
2 Trade notes and accounts receivable	950		4,445	
(a) Less allowance for bad debts		950		4,445
3 Inventories		29,610		22,525
4 Gov't obligations: (a) U.S. and instrumentalities				
(b) State, subdivisions thereof, etc.				
5 Other current assets (attach schedule)				
6 Mortgage and real estate loans				
7 Other investments (attach schedule)				
8 Buildings and other fixed depreciable assets	52,400		50,200	
(a) Less accumulated depreciation	24,553	27,847	22,807	27,393
9 Depletable assets				
(a) Less accumulated depletion				
10 Land (net of any amortization)		3,000		3,000
11 Intangible assets (amortizable only)				
(a) Less accumulated amortization				
12 Other assets (attach schedule)				
13 Total assets		64,332		90,184
LIABILITIES AND CAPITAL				
14 Accounts payable		3,027		2,536
15 Mortgages, notes, and bonds payable in less than 1 year		4,187		11,437
16 Other current liabilities (attach schedule)				
17 Mortgages, notes, and bonds payable in 1 year or more		29,873		26,473
18 Other liabilities (attach schedule)		800		800
19 Partners' capital accounts		26,445		48,938
20 Total liabilities and capital		64,332		90,184

Schedule M—RECONCILIATION OF PARTNERS' CAPITAL ACCOUNTS (See Instruction for Schedule M)

(Show reconciliation of each partner's capital account on Schedule K-1)

Number of partners	a. Capital account at beginning of year	b. Capital contributed during year	c. Ordinary income (loss) from line 26, page 1	d. Income not included in column c, plus nontaxable income	e. Losses not included in column c, plus unallowable deductions	f. Withdrawals and distributions	g. Capital account at end of year
2	26,445		32,608			10,115	48,938

Schedule N—COMPUTATION OF NET EARNINGS FROM SELF-EMPLOYMENT (See Instruction for Schedule N)

1 Ordinary income (loss) (page 1, line 26)		32,608
2 Add: Payments to partners—salaries and interest (page 1, line 14)		
3 Net rental loss from real estate (see instruction for Schedule N)		
4 Net ordinary loss (page 1, line 10)		
5 Total		32,608
6 Less: Nonqualifying dividends (page 1, line 5)		
7 Interest (see instruction for Schedule N)		
8 Net rental income from real estate (see instruction for Schedule N)	600	
9 Net ordinary gain (page 1, line 10)	545	1,145
10 Net earnings (loss) from self-employment. Enter on Schedule K, line 8		31,463

	Yes	No
G Was the partnership liable for filing Form 1096 for 1975? If "Yes," show where filed ►		X
H Is any member of the partnership related by blood or marriage to any other member?		X
I Is any member of the partnership a trust for the benefit of any person related by blood or marriage to any other member?		X

	Yes	No
J Did the partnership claim a deduction for expenses connected with:		
(1) Employee or family vacations not reported on Form W-2?		X
(2) Entertainment facility (boat, resort, ranch, etc.)?		X
(3) Employees' families at conventions or meetings?		X
(4) Living accommodations (except employees on business)?		X

☆ U.S. GOVERNMENT PRINTING OFFICE : 1975—O-575-[illegible] E.I. [illegible]

2.56

Schedule of Other Deductions

For Form 1065, Line 24

Licenses	$ 193
Legal	283
Telephone	165
Electricity	369
Heat	680
Advertising	600
Insurance	850
Gas, Oil & Grease	1,037
Total To Form 1065, Line 24	$4,177

2.57

Form **1120**
Department of the Treasury
Internal Revenue Service

U.S. Corporation Income Tax Return

For calendar year 1975 or other taxable year beginning
.................., 1975, ending ...., 19 ....
(PLEASE TYPE OR PRINT)

1975

Check if a—
A Consolidated return ☐
B Personal Holding Co. ☐
C Business Code No. (See page 7 of instructions)

Name: Brown Furniture, Inc.
Number and street:
City or town, State, and ZIP code: Anoka, Minnesota 55303

D Employer identification number:
E Date incorporated: 1965
F Enter total assets from line 14, column (D), Schedule L (See instruction R) $

IMPORTANT—Fill in all applicable lines and schedules. If the lines on the schedules are not sufficient, see instruction N.

GROSS INCOME	1	Gross receipts or gross sales 153,203 Less: Returns and allowances	1	153,203
	2	Less: Cost of goods sold (Schedule A) and/or operations (attach schedule)	2	92,614
	3	Gross profit	3	60,589
	4	Dividends (Schedule C)	4	
	5	Interest on obligations of the United States and U.S. instrumentalities	5	
	6	Other interest	6	
	7	Gross rents	7	600
	8	Gross royalties	8	
	9	(a) Net capital gains (attach separate Schedule D)	9(a)	2,350
		(b) Ordinary gain or (loss) from Part II, Form 4797 (attach Form 4797)	9(b)	545
	10	Other income (see instructions—attach schedule)	10	
	11	TOTAL income—Add lines 3 through 10	11	64,084
DEDUCTIONS	12	Compensation of officers (Schedule E)	12	32,608
	13	Salaries and wages (not deducted elsewhere)	13	15,658
	14	Repairs (see instructions)	14	1,617
	15	Bad debts (Schedule F if reserve method is used)	15	
	16	Rents	16	1,500
	17	Taxes (attach schedule)	17	1,664
	18	Interest	18	1,456
	19	Contributions (not over 5% of line 30 adjusted per instructions—attach schedule)	19	
	20	Amortization (attach schedule)	20	
	21	Depreciation (Schedule G)	21	3,054
	22	Depletion	22	
	23	Advertising	23	600
	24	Pension, profit-sharing, etc. plans (see instructions) (enter number of plans ► ....)	24	
	25	Employee benefit programs (see instructions)	25	
	26	Other deductions (attach schedule)	26	3,577
	27	TOTAL deductions—Add lines 12 through 26	27	61,734
	28	Taxable income before net operating loss deduction and special deductions (line 11 less line 27)	28	2,350
	29	Less: (a) Net operating loss deduction (see instructions—attach schedule) 29(a)		
		(b) Special deductions (Schedule I) 29(b)		
	30	Taxable income (line 28 less line 29)	30	2,350
TAX	31	TOTAL TAX (Schedule J)	31	470
	32	Credits: (a) Overpayment from 1974 allowed as a credit		
		(b) 1975 estimated tax payments		
		(c) Less refund of 1975 estimated tax applied for on Form 4466 ( )		
		(d) Tax deposited with Form 7004 (attach copy)		
		(e) Tax deposited with Form 7005 (attach copy)		
		(f) Credit from regulated investment companies (attach Form 2439)		
		(g) U.S. tax on special fuels, nonhighway gas and lubricating oil (attach Form 4136)		
	33	TAX DUE (line 31 less line 32). See instruction G for depositary method of payment	33	470
	34	OVERPAYMENT (line 32 less line 31)	34	
	35	Enter amount of line 34 you want: Credited to 1976 estimated tax ► Refunded ►	35	

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which the preparer has any knowledge.

The Internal Revenue Service does not require a seal on this form, but if one is used, please place it here.

Date .... Signature of officer .... Title ....

Date .... Signature of individual or firm preparing the return .... Preparer's address ....

Schedule A Cost of Goods Sold (See instruction 2)

1 Inventory at beginning of year	29,610
2 Merchandise bought for manufacture or sale	85,311
3 Salaries and wages	
4 Other costs (attach schedule)	218
5 Total	115,139
6 Less: Inventory at end of year	22,525
7 Cost of goods sold—Enter on line 2, page 1	92,614

Method of inventory valuation ▶ COST

Was there any substantial change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☒ No

If "Yes," attach explanation.

Schedule C Dividends (See instruction 4)

1 Domestic corporations subject to 85% deduction	
2 Certain preferred stock of public utilities	
3 Foreign corporations subject to 85% deduction	
4 Dividends from wholly-owned foreign subsidiaries subject to 100% deduction (section 245(b))	
5 Other dividends from foreign corporations	
6 Includable income from controlled foreign corporations under subpart F (attach Forms 3646)	
7 Foreign dividend gross-up (section 78)	
8 Qualifying dividends received from affiliated groups and subject to the 100% deduction (section 243 (a)(3))	
9 Qualifying dividends received from affiliated groups and subject to the provisions of section 1564(b)	
10 Taxable dividends from a DISC or former DISC not included in line 1 (section 246(d))	
11 Other dividends	
12 Total—Enter here and on line 4, page 1	

Schedule E Compensation of Officers (See instruction 12)

1. Name of officer	2. Social security number	3. Title	4. Time devoted to business	Percent of corporation stock owned: 5. Common	6. Preferred	7. Amount of compensation	8. Expense account allowances
Al Brown		Pres.	100%	50		16,304	
Debra Brown		V-Pres.	100%	50		16,304	
Total compensation of officers—Enter here and on line 12, page 1						32,608	▨

Schedule F Bad Debts—Reserve Method (See instruction 15)

1. Year	2. Trade notes and accounts receivable outstanding at end of year	3. Sales on account	Amount added to reserve: 4. Current year's provision	5. Recoveries	6. Amount charged against reserve	7. Reserve for bad debts at end of year
1970						
1971						
1972						
1973						
1974						
1975						

Schedule G Depreciation (See instructions for Schedule G) Note: If depreciation is computed by using the Class Life (ADR) System or the Guideline Class Life System, you must file Form 4832 (Class Life (ADR) System) or Form 5006 (Guideline Class Life System) with your return. Check box(es) if you made an election this taxable year to use ☐ Class Life (ADR) System and/or ☐ Guideline Class Life System. See Publication 534.

1. Group and guideline class or description of property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed or allowable in prior years	5. Method of computing depreciation	6. Life or rate	7. Depreciation for this year
1 Total additional first-year depreciation (do not include in items below) →						
2 Depreciation from Form 4832						
3 Depreciation from Form 5006						
4 Other depreciation:						
Buildings						
Furniture and fixtures						
Transportation equipment						
Machinery and other equipment						
Other (specify)						
5 Totals						
6 Less: Amount of depreciation claimed in Schedule A						
7 Balance—Enter here and on line 21, page 1						

2.59

Schedule I Special Deductions

1 (a) 85% of line 1, Schedule C	
(b) 60.208% of line 2, Schedule C	
(c) 85% of line 3, Schedule C	
(d) 100% of line 4, Schedule C	
2 Total—See instructions for limitation	
3 100% of line 8, Schedule C	
4 Enter dividends-received deduction allowed for dividends reported on line 9, Sch. C. See section 1564(b) for computation	
5 Dividends paid on certain preferred stock of public utilities (see instructions)	
6 Western Hemisphere trade corporations (see instructions)	
7 Total special deductions—Add lines 2 through 6. Enter here and on line 29(b), page 1	

Schedule J Tax Computation (Fiscal Year corporations, omit lines 1 through 8 and enter on line 9, the amount from line 5, Part III, Form 1120–FY 1975–76)

1 Taxable income (line 30, page 1)		2,350
2 Enter line 1 or $25,000, whichever is lesser. (Members of a controlled group, see instructions)		2,350
3 Line 1 less line 2		-0-
4 Enter line 3 or $25,000, whichever is lesser. (Members of a controlled group, see instructions)		
5 Line 3 less line 4		
6 20% of line 2		470
7 22% of line 4		
8 48% of line 5		
9 Income tax (Sum of lines 6, 7 and 8 or alternative tax from separate Schedule D, whichever is lesser; Fiscal year corps., enter amount from line 5, Part III, Form 1120–FY 1975–76)		
10 (a) Foreign tax credit (attach Form 1118)		
(b) Investment credit (attach Form 3468)		
(c) Work incentive (WIN) credit (attach Form 4874)		
11 Total of lines 10(a), (b), and (c)		
12 Line 9 less line 11		470
13 Personal holding company tax (attach Schedule PH (Form 1120))		
14 Tax from recomputing a prior year investment credit (attach Form 4255)		
15 Tax from recomputing a prior year WIN credit (see instructions—attach computation)		
16 Minimum tax on tax preference items (see instructions—attach Form 4626)		
17 Total tax—Add lines 12 through 16. Enter here and on line 31, page 1		470

Schedule K Record of Form 503 Federal Tax Deposits (List deposits in order of date made—See instruction G)

Serial number of Form 503	Date of deposit	Amount	Serial number of Form 503	Date of deposit	Amount	Serial number of Form 503	Date of deposit	Amount

	Yes	No
G Did you claim a deduction for expenses connected with:		
(1) Entertainment facility (boat, resort, ranch, etc.)?		
(2) Living accommodations (except for employees on business)?		
(3) Employees' families at conventions or meetings?		
(4) Employee or family vacations not reported on Form W-2?		
H (1) Did you at the end of the taxable year own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).)		
If "Yes," attach a schedule showing: (a) name, address, and identifying number; (b) percentage owned; and (c) taxable income or (loss) (e.g., if a Form 1120: from line 30, page 1, Form 1120) of such corporation for the taxable year ending with or within your taxable year.	▨	▨
(2) Did any individual, partnership, corporation, estate or trust at the end of the taxable year own, directly or indirectly, 50% or more of your voting stock? (For rules of attribution, see section 267(c).)		
If "Yes:" (a) Attach a schedule showing name, address, and identifying number. (b) Enter percentage owned ►	▨	▨
(c) Was the owner of such voting stock a person other than a U.S. person?		
If "Yes," enter owner's country ► (See instruction T.)	▨	▨
I Did you ever declare a stock dividend?		
J Did you exclude income under section 931?		
K Taxable income or (loss) from line 30, page 1, Form 1120 for your taxable year beginning in: 1972 , 1973 , 1974	▨	▨

	Yes	No
L Were you a member of a controlled group subject to the provisions of Section 1561?		
If "Yes," check the type of relationship: (1) ☐ parent-subsidiary (2) ☐ brother-sister (3) ☐ combination of (1) and (2) (See section 1563.)	▨	▨
M Refer to page 7 of instructions and state the principal: Business activity Product or service	▨	▨
N Did you file all required Forms 1087, 1096 and 1099?		
O Were you a U.S. shareholder of any controlled foreign corporation? (See sections 951 and 957.)		
If "Yes," attach Form 3646 for each such corporation.		
P If you are a farmers' cooperative, check type: ☐ purchasing ☐ marketing ☐ service ☐ other (explain) ►	▨	▨
Q During this taxable year, did you pay dividends (other than stock dividends and distributions in exchange for stock) in excess of your current and accumulated earnings and profits? (See sections 301 and 316.)		
If "Yes," file Schedule A, Form 1096. If this is a consolidated return, answer here for parent corporation and on Form 851, Affiliations Schedule, for each subsidiary.	▨	▨

2.60

Schedule of Other Deductions

For Form 1120, Line 26

Licenses	$ 193
Legal	283
Telephone	165
Electricity	369
Heat	680
Insurance	850
Gas, Oil & Grease	1,037
Total To Form 1120, Line 26	$ 3,577

Form **1120S**

Department of the Treasury
Internal Revenue Service

U.S. Small Business Corporation Income Tax Return

for calendar year 1975 or other taxable year beginning ...., 1975, ending ...., 19.....
(PLEASE TYPE OR PRINT)

2.61

1975

A Date of election as small business corporation 1965

B Business Code No. (see page 7 of instructions)

Name Brown Furniture

Number and street

City or town, State, and ZIP code Anoka, Minnesota 55303

C Employer identification no.

D Date incorporated 1965

E Enter total assets from line 14, column D, Schedule L $

IMPORTANT—All applicable lines and schedules must be filled in. If the lines on the schedules are not sufficient, see instruction N.

GROSS INCOME	1 Gross receipts or gross sales 153,203 Less: Returns and allowances	1	153,203
	2 Less: Cost of goods sold (Schedule A) and/or operations (attach schedule)	2	92,614
	3 Gross profit	3	60,589
	4 (a) Domestic dividends	4(a)	
	(b) Foreign dividends	4(b)	
	5 Interest on obligations of the U.S. and U.S. instrumentalities	5	
	6 Other interest	6	
	7 Gross rents	7	600
	8 Gross royalties	8	
	9 Gains and losses (attach separate Schedule D (Form 1120S) and/or Form 4797):		
	(a) Net short-term capital gain reduced by any net long-term capital loss	9(a)	
	(b) Net long-term capital gain reduced by any net short-term capital loss (if more than $25,000, see instructions)	9(b)	2,350
	(c) Ordinary gain or (loss) from Part II, Form 4797	9(c)	545
	10 Other income (see instructions—attach schedule)	10	
	11 TOTAL income—Add lines 3 through 10	11	64,084
DEDUCTIONS	12 Compensation of officers (Schedule E)	12	32,608
	13 Salaries and wages (not deducted elsewhere)	13	15,658
	14 Repairs (see instructions)	14	1,617
	15 Bad debts (Schedule F if reserve method is used)	15	
	16 Rents	16	1,500
	17 Taxes (attach schedule)	17	1,664
	18 Interest	18	1,456
	19 Contributions (not over 5% of line 28 adjusted per instructions—attach schedule)	19	
	20 Amortization (attach schedule)	20	
	21 Depreciation (Schedule G)	21	3,054
	22 Depletion (attach schedule)	22	
	23 Advertising	23	600
	24 Pension, profit-sharing, etc. plans (see instructions) (enter number of plans ▶..................)	24	
	25 Employee benefit programs (see instructions)	25	
	26 Other deductions (attach schedule)	26	3,577
	27 TOTAL deductions—Add lines 12 through 26	27	61,734
	28 Taxable income (line 11 less line 27)	28	2,350
TAX	29 Income tax on capital gains (Schedule J)	29	-0-
	30 Minimum tax (see instructions—attach Form 4626)	30	
	31 Total tax (add lines 29 and 30)	31	
	32 Credits: (a) Tax deposited with Form 7004 (attach copy)	32(a)	
	(b) Tax deposited with Form 7005 (attach copy)	32(b)	
	(c) Credit for U.S. tax on special fuels, nonhighway gas, and lubricating oil (attach Form 4136)	32(c)	
	33 TAX DUE (line 31 less line 32). See instruction G for depositary method of payment ⟶	33	
	34 OVERPAYMENT (line 32 less line 31) ⟶	34	

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which the preparer has any knowledge.

The Internal Revenue Service does not require a seal on this form, but if one is used, please place it here.

Date .... Signature of officer .... Title ....

Date .... Signature of individual or firm preparing the return .... Preparer's address ....

2.62

Form 1120S (1975) **Schedule A** Cost of Goods Sold (See instruction 2) Page 2

Method of inventory valuation (specify) ► COST

Was there any substantial change in the manner of determining quantities, costs, or valuations between opening and closing inventory? . . ☐ Yes ☒ No. If "Yes," attach explanation.

1 Inventory at beginning of year	29,610	5 Total of lines 1 through 4	115,139
2 Merchandise bought for manufacture or sale	85,311	6 Less: Inventory at end of year	22,525
3 Salaries and wages		7 Cost of goods sold—Enter here and on line 2, page 1	92,614
4 Other costs (attach schedule)	218		

Schedule E Compensation of Officers (See instruction 12)

1. Name of officer	2. Social security number	3. Title	4. Time devoted to business	5. Percentage of corporation stock owned	6. Amount of compensation	7. Expense account allowances
Al Brown		Pres.	100	50	16,304	
Debra Brown		V-Pres.	100	50	16,304	
Total compensation of officers—Enter here and on line 12, page 1					32,608	▨

Schedule F Bad Debts—Reserve Method (See instruction 15)

1. Year	2. Trade notes and accounts receivable outstanding at end of year	3. Sales on account	Amount added to reserve 4. Current year's provision	Amount added to reserve 5. Recoveries	6. Amount charged against reserve	7. Reserve for bad debts at end of year
1970						
1971						
1972						
1973						
1974						
1975						

Schedule G Depreciation (See instruction 21). **Note:** If depreciation is computed by using the Class Life (ADR) System or the Guideline Class Life System, you must file Form 4832 (Class Life (ADR) System) or Form 5006 (Guideline Class Life System) with your return.

Check box(es) if you made an election this taxable year to use ☐ Class Life (ADR) System and/or ☐ Guideline Class Life System. See Publication 534.

1. Group and guideline class or description of property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed or allowable in prior years	5. Method of computing depreciation	6. Life or rate	7. Depreciation for this year
1 Total additional first-year depreciation (do not include in items below) →						
2 Depreciation from Form 4832			▨	▨	▨	
3 Depreciation from Form 5006			▨	▨	▨	
4 Other depreciation:						
Buildings						
Furniture and fixtures						
Transportation equipment						
Machinery and other equipment						
Other (specify)						
5 Totals						
6 Less: Amount of depreciation claimed in Schedule A						
7 Balance—Enter here and on line 21, page 1						

Schedule J Tax Computation (See instructions)

1 Taxable income (line 28, page 1)	2,350
2 Enter $25,000. (Members of a controlled group, see instructions)	25,000
3 Line 1 less line 2	
4 Enter line 3 or $25,000, whichever is lesser (Members of a controlled group, see instructions)	
5 Line 3 less line 4	
6 Enter 20% of line 2	5,000
7 Enter 22% of line 4	
8 Enter 48% of line 5	
9 Add lines 6, 7, and 8	5,000
10 Net long-term capital gain reduced by net short-term capital loss (from line 9(b), page 1)	2,350
11 Subtract $25,000. (Statutory minimum)	25,000.00
12 Balance (line 10 less line 11). (See instructions)	
13 Enter 30% of line 12. (See instructions)	
14 Income tax on capital gains (line 9 or line 13, whichever is lesser). Enter here and on line 29, page 1	

Schedule of Other Deductions

For Form 1120S, Line 26

Licenses	$ 193
Legal	283
Telephone	165
Electricity	369
Heat	680
Insurance	850
Gas, Oil & Grease	1,037
Total To Form 1120S, Line 26	$3,577

8
3 2.64

FORM M-4 MINNESOTA CORPORATION INCOME TAX RETURN 1975

Print or type

For the year January 1 December 31, 1975 or other taxable year beginning ______ 1975, ending ______, 19 ___

Do Not Write In The Space Above

Date of Incorporation 1965	Name of Corporation BROWN FURNITURE, INC.	Comp ____ Tax $ ____
Under Laws of What State? MINN.	Street Address	Audit ____ Int. $ ____ Date ____ $ ____
Minnesota Identification No.	City or Post Office / County / State / Zip Code ANOKA, MINNESOTA 55303	Were Minnesota Income Taxes Withheld and Required Reports filed for 1975? Yes ☐ No ☐
Federal Identification No.	Address of Principal Office in Minnesota (Street Address) SAME	Principal Business Activity & Code No. (From U.S. Return)
Was a Consolidated U.S. Income tax return filed? Yes ☐ No ☐	City or Post Office / County / State / Zip Code SAME	Enter below former Name or Address if there was a change since filing your last return

IMPORTANT: ATTACH A COPY OF FEDERAL RETURN IN LIEU OF COMPLETING PAGES 3 AND 4 OF FORM M-4.

GROSS INCOME

1 Gross receipts or gross sales $ 153,203 Less: Returns and allowances $ -0-	1	153,203
2 Less: Cost of goods sold (from Schedule C) and/or operations (from Schedule D)	2	92,614
3 Gross profit (Line 1 minus Line 2)	3	60,589
4 (a) Dividends (Sched. G) $ ____ (c) Interest (Sched. P) $ ____ (b) Rents $ 600 (d) Royalties $ ____ Total of a, b, c & d ▶	4	● 600
5 Net gains (losses) (from separate Schedule E)	5	
6 Other income (state nature of income)	6	2,895
7 Total income (Add Lines 3 through 6)	7	64,084

DEDUCTIONS

8 (a) Compensation of officers (Sched. H) $ 32,608 (b) Salaries and wages $ 15,658 Total of a & b ▶	8	48,266
9 Taxes (from Schedule J)	9	1,664
10 (a) Repairs $ 1,617 (b) Bad debts $ ____ (c) Rents $ 1,500 Total of a, b & c ▶	10	3,117
11 (a) Interest $ 1,456 (b) Casualty and Theft Losses (Submit Sch.) $ ____ Total of a & b ▶	11	1,456
12 (a) Depreciation $ 3,054 (b) Amortization $ ____ (c) Depletion $ ____ Total of a, b & c ▶	12	3,054
13 Pension, profit sharing, stock bonus, annuity plans and other employee benefit plans	13	
14 Other deductions authorized by law (from Schedule I)	14	4,177
15 Total deductions (Add Lines 8 through 14)	15	61,734
16 Net income before net operating loss deduction. (Line 7 minus Line 15)	16	2,350
17 Net operating loss deduction. (Submit computation, see Instruction 17)	17	●
18 Net income (Line 16 minus Line 17)	18	● 2,350

COMPUTATION OF TAX

19 Taxable net income (from Form M-5, Schedule T, Schedule V, or Line 18 above)		19	● 2,350
20 Minnesota farm loss to be added back (Submit Schedule, see Instruction 20)		20	
21 Taxable net income (Line 19 plus Line 20)		21	2,350
22 (a) Minnesota Contributions (from Page 4, Schedule N) (15% Limitation)	22a		
(b) Dividend Received Credit (from Page 2, Schedule G, Col. 6)	22b		
(c) Specific Credit	22c 500.00	Total of a, b & c ▶ 22	● 500
23 Balance Subject to Tax (Line 21 minus Line 22)		23	● 1,850
24 **INCOME TAX**—12% of Line 23		24	● 222
25 Pollution Control Credit (Attach Schedule PC)		25	●
26 **TOTAL LIABILITY** (Line 24 minus Line 25) **(Minimum Tax $100.00)**		26	● 222
27 (a) Tax paid with Form M-522C Application for Extension (Attach copy)	27a ●		
(b) Payments on 1975 Est. Tax and other prepayments or credits	27b ●		
(c) Exempt Agricultural Electricity Credit (Attach Schedule EAC)	27c ●	Total of a, b & c ▶ 27	
28 If tax (Line 26) is larger than credits (Line 27), enter **BALANCE OF TAX DUE** →		28	● $ 222
29 If tax (Line 26) is less than credits (Line 27) enter the **OVERPAYMENT** here →		29	● $
30 Enter amount of Line 29: Credited on 1976 estimate tax $ ____ Refund $ ____			
31 Additional charge for underpayment of estimated tax (Pay this amount when filing this return) (See Instruction 27(b))		31	

Enter amount **PAID** with this return (See Instructions)
Make remittance payable to "Commissioner of Revenue" $ ____

Mail to:
Minn. Corporation Income Tax
Centennial Office Building
St. Paul, Minnesota 55145

OFFICER OF TAXPAYER: I declare under the penalties of criminal liability for wilfully making a false return, that this return is to the best of my knowledge and belief true, correct and complete. I hereby confess judgment to the State of Minnesota for the amount of tax shown due hereon to the extent not timely paid.
PREPARER: I declare that this return is to the best of my knowledge and belief true, correct and complete.

Sign ▶ Here ____ Signature of Officer

____ Title ____ Soc. Sec. No. ____ Date

____ Signature of Preparer (other than officer or employee of taxpayer)

____ Name of Preparer's Firm

Year II--Unit 2

MEASURES OF SMALL BUSINESS PROFIT

Part I. Student Objectives

A. Utilizing a sample small business analysis report the student will be able to define those terms used in the report to measure business and managerial performance.

B. Given a sample small business income statement and balance sheet from the small business analysis report, the student will be able to calculate (with 100% accuracy) measures of profit identified as being significant to his business by the instructor.

Part II. Transition of Units

The previous unit dealt with the calculation of income and social security taxes and would normally be taught in January when most small business families are involved with this task.

This unit initiates the detailed background necessary for an understanding of the business analysis to be prepared by March. The "why" of these measurements is stressed in this unit.

The following unit on measures of small business size will add additional terminology and understanding concerning the physical and financial size of the business to be shown in the business analysis.

Part III. Lesson

KEY QUESTION 1. How do you define, calculate and use the measure of Net Operating Profit?

Attention Focuser

Utilizing three relatively large rain gauges or graduated chemistry glass cylinders, place a piece of masking tape over the markings on each. Start by displaying one gauge or cylinder approximately half full of red water (use red food coloring). Ask the class how full it is and if it's a normal situation. Then put the other two gauges or cylinders next to the first one, with one about one-fourth full and the other about three-fourths full (with red water). Now ask the class how they compare with each other and how they compare to a normal situation. You may mark these gauges or cylinders to indicate Year I, II, and III of a business.

Put the normal situation on the board as 0.60 or 60 percent. Then remove the tape from each gauge or cylinder and ask the class what this base or background (industry average) adds to an understanding of the situation. The intent of this attention focuser is to illustrate the need for measures of profit that are consistent, understandable, and in a form that can be compared to what others are doing.

A. Definition: Net Operating Profit is the excess of gross sales dollars over all expenses and deductions.

B. Calculation: Utilizing the attached blank sample small business analysis report and the example of a small business account, complete the following calculations.

Analysis Table 2.1

Line	Item	Value
475	Net Sales of Goods & Services	$153,203
598	Cost of Goods or Services Sold	92,396
599	Gross Profit (L475 minus L598)	60,807
698	Total Expenses or Deductions	29,344
699	Net Operating Profit (L599 minus L698)	31,463

C. "Comparison is the key in using your P & L Statement." (Feller, p. 2) Comparing a current net operating profit to figures from previous periods, and comparing to other similar businesses (if profit has been arrived at in a like manner) can be an indicator of your business health.

D. Use: A business net profit might be expected to indicate the maximum amount that the owner could take out of the business and consume during a period and still be as well off at the end of the period as at the beginning. (Gordon and Shillinglaw, 4th ed., p. 248) Profit not consumed will show up as additional owner's equity.

Suggested Teaching Strategy (for presenting all of the key questions in this unit.)

Distribute a blank copy of an annual small business analysis and the sample small business account for this unit to each family. Give each family a small supply of lined paper and pencils if necessary.

Write the key question on the board. Spend a few minutes defining the measure or ratio and allow the class to offer their definitions.

Using the item description only, show the calculation on the board. Refer the class members to the appropriate table in the blank analysis and to the sample small business account, and have them complete the actual calculations. After allowing a few minutes to complete these calculations, put the correct calculations on the board.

Discuss the use of the measure or ratio, encouraging class participation.

KEY QUESTION 2. How do you define, calculate and use the measure of Return to Operator's Labor and Management?

A. Definition: Return to Operator's Labor and Management is the excess of total income, including family use of goods and services over total expenditures, including interest on investment and unpaid family labor.

B. Calculation:

Analysis Table 2

Line	Item	Value
D	Total Income	$154,648
H	Total Expenditures	124,985
RLM	Return to Operator's Labor and Management (Line D minus Line H)	$ 29,663

C. Use: Return to Operator's Labor and Management is what the small business operator receives for his/her year's labor and management after all business expenses, unpaid family labor and interest on capital invested have been deducted from total income. Since interest on business capital is charged as an expense and actual interest is not considered, the business operator with a large indebtedness can be compared equally with one who has no debts.

D. Use: This measure can be used to chart progress on an annual basis. The farm management program has identified several efficiency factors to earnings. Correlations of efficiency factors to earnings may be possible in the future in the small business management analysis.

KEY QUESTION 3. How do you define, calculate and use the measure of Return to Capital, Family Labor and Management?

A. Definition: Return to Capital, Family Labor and Management is the Return to Operator's Labor and Management plus Interest on Investment and Unpaid Family Labor. This is the amount the business operator's family has to live on, reduce debts with and save.

B. Calculation:

Analysis Table 2

Line	Item	Value
RLM	Return to Operator's Labor and Management	$29,663
G	Interest on Investment	3,401
062	Unpaid Family Labor	1,000
	(Line RLM + Line G + Line 062)	34,064
618	Actual Interest Paid	(minus) 1,456
CLM	Return to Capital, Family Labor & Management	$32,608

C. Use: This measure indicates the amount the business operator's family has to live on, to use for debt retirement and to save. It is a realistic figure to use when a family considers family and business goals and establishes a standard of living for themselves.

KEY QUESTION 4. How do you define, calculate and use the measure of Owner's Change in Equity or Net Worth?

A. Definition: The difference in equity or net worth at the end of the year over the beginning of the year. Equity is found on the business balance sheet. Net Worth appears on the net worth statement and is a combination of business and personal assets and liabilities.

B. Calculation:

Analysis Table 4 (Owner's Equity)

Line	Item	Beginning	Ending
199	Total Assets	$64,332	$90,184
299	Total Liabilities	37,887	41,246
379	Total Equity (L199 minus L299)	26,445	48,938
D	Change in Owner's Equity (difference from beginning to ending)		22,493

To arrive at change in net worth on Table 5, complete the following calculations

Analysis Table 5 (Net Worth)

Line	Item	Beginning	Ending
E	Total Assets	$92,127	$118,757
H	Total Liabilities	39,853	41,883
I	Total Net Worth (Line E minus Line H)	52,274	76,874
J	Change in Net Worth (diff. from beg. to ending)		24,600

C. Use: A good balance sheet or net worth statement should show an accurate gain or loss. A gain will normally indicate increasing financial security. A gain may indicate additional security for credit. A loss may indicate over financing, poor liability control or excessive family living expenditures.

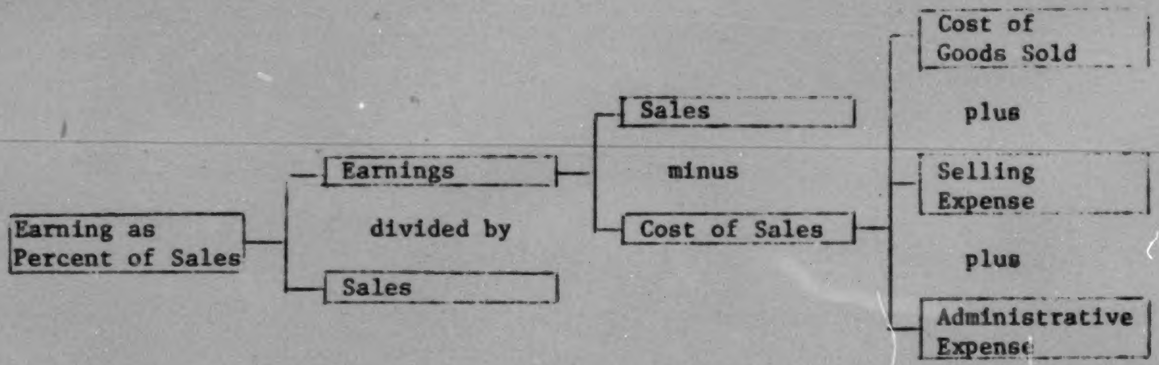
KEY QUESTION 5. How do you define, calculate and use the ratio of Net Operating Profit to Net Sales?

A. Definition: This measure may be defined as the percentage of earnings generated by sales.

B. Calculation:

$$\frac{\text{Net Operating Profit (T2.1 L699)}}{\text{Net Sales (T2.1 L475)}} = \frac{\$31,463}{\$153,203} = 21\%$$

C. Use: The chart below allows one to trace two sources of problems which may cause this ratio to be low. The first source may be an inability to control general expenses or the cost of merchandise purchased for resale at any given lever, thus resulting in lower earnings. The second source may fall in the pricing policy. A competitive environment may limit the amount of discretion one has in this area. (Smith and Cooper, p. 151)



KEY QUESTION 6. How do you define, calculate and use the ratio of Return on Assets?

A. Definition: This measure may be defined as a profit margin ratio.

B. Calculation: Return on Assets = $\frac{\text{Net Operating Profit}}{\text{Average Total Business Assets}}$ =

$\frac{31,463}{77,258} = 41\%$

C. Use: This measure is used widely in profitability analysis, generally for the purpose of indicating trends. It can be used as a test of management quality and asset utilization in the business.

KEY QUESTION 7. How do you define, calculate and use the ratio of Inventory Turnover?

A. Definition: This ratio shows the number of times inventory is bought and sold during the year.

B. Calculation: Inventory Turnover = $\frac{\text{Annual Net Sales}}{\text{Year End Merch. Inven.}}$ =

$\frac{153,203}{22,525} = 6.80$

C. Use: This is a yardstick for comparing stock-to-sales ratios from one business to others in the industry. "A low ratio is indicative of slow-moving inventory, and a sign of potential danger is a ratio that is rising or higher than competitors' or both." (Gordon and Shillinglaw, 4th ed., p. 257)

D. Use: This ratio says nothing about the quality of the year end inventory nor does it reflect seasonal variations in sales. To use in comparisons, supplementary information may be needed from other firms.

KEY QUESTION 8. How do you define, calculate and use the ratio of Total Gross Margin Per $1000 of Total Assets?

A. Definition: This ratio is the relationship of sales (minus cost of goods sold) to each $1000 of total business assets.

B. Calculation:

$$\frac{\text{(Sales minus Cost of Goods Sold)}}{\dfrac{\text{Average Total Business Assets}}{\$1000}} = \frac{\$60,807}{\dfrac{\$77,258}{1,000}} = \$787$$

C. Use: This ratio reflects prices received and paid for goods. It also is influenced by the amount of assets invested in the business.

Part IV. Summary

A. Ratio analysis of a financial statement involves relationships among different financial figures. Trends in business and managerial performance can be observed by comparing these ratios to previous periods in the business and to industry standards.

B. Ratio analysis can also be used to evaluate the business earning power, working capital position and current financial structure.

Part V. At-The-Business Instruction

Review the measures of small business profit dealt with in the last class session.

Ask the business operator which measures apply significantly to that business.

Assist in the selection of those measures most appropriate to the business.

If a preliminary small business analysis report is available, assist the operator in interpreting it relative to the measures of profit.

If the report is not available but some measures can be calculated from available data, assist the business operator with these calculations.

Ask the operator to evaluate the measures that indicate a strong or weak position of that business in relation to previous experience, or to industry averages.

Part VI. Resources

Overhead Projector
Chalkboard
Handouts of Income Statement and Balance Sheet
Handouts of Sample Small Business Analysis Report
Transparencies of Sample Small Business Analysis Report
Handout of Formulas for Ratios
Supply of Lined Paper and Pencils

Part VII. References

A. References Cited

1. Agricultural Extension Service, University of Minnesota, The Financial Management of Agribusiness Firms, by Frank J. Smith and Ken Cooper, Special Report 26, St. Paul, 1967.

2. Gordon, Myron J. and Gordon Shillinglaw, Accounting: A Management Approach, Fourth Edition, Richard D. Irwin, Inc., Homewood, Illinois, 1969.

3. Small Business Administration, Keep Pointed Toward Profit, by Jack H. Feller, Jr., Management Aids No. 206, Washington, U.S. Government Printing Office, 1970

B. Other References

1. Broom, H. N. and Justin G. Longenecker, Small Business Management, Third Edition, Southwestern Publishing Company, Cincinnati, 1971.

2. National Farm and Power Equipment Dealers Association, Costs of Doing Business Study for 1972: Financial and Operating Profiles of Farm and Industrial Equipment Dealers, St. Louis, 1973.

Part VIII. Appendices

A. Sample Small Business Account For Year II--Unit 2

B. Blank Small Business Analysis Report (Retain for Yr. II Units 3 & 4)

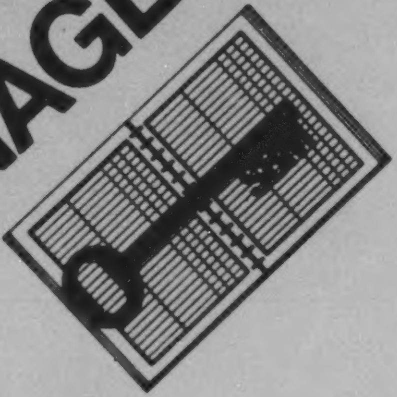
Appendix A

Sample Small Business Account For Year II--Unit 2

Net Sales of Goods & Services		$153,203
Cost of Goods or Services Sold		92,396
Total Expenses or Deductions		29,344
Total Income		154,648
Total Expenditures		124,985
Interest on Investment (6% of av. non-cash investment)		3,401
Unpaid Family Labor		1,000
Actual Interest Paid		1,456
	Beginning	**Ending**
Total Business Assets	$64,332	$90,184
Total Business Liabilities	37,887	41,246
Owners Total Assets	92,127	118,757
Owners Total Liabilities	39,853	41,883
Year End Merchandise Inventory		22,525

2.73

SMALL BUSINESS MANAGEMENT



Annual Report

1975

AN ADULT
EDUCATIONAL
PROGRAM

DATE PROCESSED____________
2.74

BUSINESS NAME____________

OPERATORS NAME____________

DATE____________

YEAR________TO________

TABLE 1. SUMMARY OF BUSINESS INVENTORIES

CODE NO. ____________

---

475. GROSS INCOME-SALES AND SERVICES $ ________

A. GROSS EXPENSES (NOT INCLUDING OPERATOR LABOR) $ ________

699. NET OPERATING INCOME OR PROFIT $ ________

B. NUMBER OF WORKERS REQUIRED (ACTUAL) FULL TIME ________
PART TIME ________

C. NUMBER OF WORKERS REQUIRED (EQUIVALENT) ________

D. NET RETURN PER WORKER EQUIVALENT $ ________

E. CAPITAL INVESTMENT PER WORKER EQUIVALENT $ ________

F.	ASSETS	BEGINNING	ENDING
121.	MERCHANDISE HELD FOR RESALE	$______	$______
181.	BARE LAND	$______	$______
182.	BUILDINGS	$______	$______
184.	EQUIPMENT & FIXTURES	$______	$______
186.	VEHICLES	$______	$______
G.	TOTAL NON-CASH ASSETS	$______	$______

H. INCREASE OR DECREASE IN NON-CASH ASSETS (-) $ ________

DATE PROCESSED ________________ BUSINESS NAME ________________

2.75

TABLE 2. INCOME AND EXPENSE STATEMENT

CODE NO. ________________________

400.	INCOME	
421.	SALES OF GOODS & SERVICES	
570.	FAMILY USE OF GOODS & SERVICES	
A.	TOTAL GOODS & SERVICES	
749.	SALES OF ASSETS	
B.	TOTAL OTHER BUSINESS INCOME	
C.	INCREASE IN NON-CASH ASSETS	
D.	TOTAL INCOME	
600.	EXPENDITURES	
521.	MDSE. PURCHASED FOR RESALE	
609.	PAID FAMILY WAGES	
610.	SALARIES & WAGES	
611.	PAYROLL TAXES	
612.	ADVERTISING	
613.	HEAT & ELECTRICITY	
615.	WATER & TELEPHONE	
617.	INSURANCE	
619.	REPAIRS & MAINTENANCE - LAND	
620.	REPAIRS & MAINTENANCE - BUILDINGS	
621.	REPAIRS & MAINTENANCE - EQUIPMENT & FIXTURES	
622.	REPAIRS & MAINTENANCE - VEHICLES	
623.	GAS, OIL & GREASE	
624.	LEGAL & ACCOUNTING	
625.	PROPERTY TAXES	
626.	CONTRIBUTIONS & DONATIONS	
627.	SHOP & OFFICE EXPENSE	
629.	ENTERTAINMENT, DUES & TRAVEL	
631.	LICENSES	
638.	BAD DEBTS	
639.	RENT	
641.	MISCELLANEOUS & OTHER EXPENSES	
642.	DELIVERY & POSTAGE	
644.	SELLING EXPENSES	
645.	EMPLOYEE BENEFITS	
646.	TRASH & BREAKAGE	
648.	COLLECTION & BANK CHARGES	
650.	SUPPLIES	
E.	TOTAL EXPENSES	
750.	PURCHASES OF ASSETS	
760.	BARE LAND	
770.	BUILDINGS	
780.	EQUIPMENT & FIXTURES	
790.	VEHICLES	
F.	DECREASE IN NON-CASH ASSETS	
G.	INTEREST ON INVESTMENT (6%)	
062.	UNPAID FAMILY LABOR	
H.	TOTAL EXPENDITURES	
RLM.	RETURN TO OPERATORS LABOR & MANAGEMENT	
CLM.	RETURN TO CAPITAL, FAMILY LABOR & MANAGEMENT	

DATE PROCESSED ____________________ BUSINESS NAME ______________________

2.76

TABLE 2.1 INCOME AND EXPENSE STATEMENT - BUSINESS ONLY

CODE NO. ____________________ BUSINESS YEAR ______________________

400.	INCOME		
421.	MERCHANDISE SALES		________
441.	SECONDARY SALES		________
460.	CUSTOMER LABOR		________
461.	OUTSIDE LABOR		________
462.	INTERNAL LABOR		________
463.	WARRANTY LABOR		________
472.	INTERNAL PARTS		________
473.	WARRANTY PARTS		________
475.	NET SALES OF GOODS & SERVICES		________
500.	COST OF GOODS OR SERVICES SOLD		
121.	BEGINNING INVENTORY	________	
521.	MDSE. PURCHASED	________	
541.	SECONDARY PURCHASES	________	
550.	FREIGHT IN COSTS	________	
561.	SUBLET LABOR	________	
570.	COST OF LABOR	________	
A.	GOODS OR SERVICES AVAILABLE	________	
121.	ENDING INVENTORY	________	
598.	COST OF GOODS OR SERVICES SOLD		________
599.	GROSS PROFIT FROM SALES		________
600.	EXPENSES		
609.	PAID FAMILY LABOR	________	
610.	SALARIES & WAGES	________	
611.	PAYROLL TAXES	________	
612.	ADVERTISING	________	
613.	HEAT	________	
614.	ELECTRICITY	________	
615.	WATER	________	
616.	TELEPHONE	________	
617.	INSURANCE	________	
618.	INTEREST	________	
619.	REPAIR & MAINT. - LAND	________	
620.	REPAIR & MAINT. - BUILDINGS	________	
621.	REPAIR & MAINT. - EQUIPMENT & FIX.	________	
622.	REPAIR & MAINT. - VEHICLES	________	
623.	GAS, OIL & GREASE	________	
624.	LEGAL & ACCOUNTING	________	
625.	PROPERTY TAXES	________	
626.	CONTRIBUTIONS & DONATIONS	________	
627.	SHOP EXPENSE	________	
628.	OFFICE EXPENSE	________	
629.	ENTERTAINMENT & PROMOTION	________	
630.	DUES & SUBSCRIPTIONS	________	
631.	LICENSES	________	

DATE PROCESSED ____________ BUSINESS NAME ____________

TABLE 2.1 CONTINUED

CODE NO. ____________ BUSINESS YEAR ____________

632.	TRAVEL & CONVENTION
633.	POLICY ADJUSTMENT
635.	DEPRECIATION - BUILDINGS
636.	DEPRECIATION - EQUIP. & FIX.
637.	DEPRECIATION - VEHICLES
634.	DEPRECIATION TOTAL
638.	BAD DEBTS
639.	RENT
640.	CASH SHORT/LONG
641.	MISCELLANEOUS
642.	DELIVERY
643.	POSTAGE
644.	SELLING EXPENSE
645.	EMPLOYEE BENEFITS
646.	TRASH & GARBAGE REMOVAL
647.	BREAKAGE & SPOILAGE
648.	COLLECTION EXPENSE
649.	BANK CHARGES
650.	SUPPLIES
651.	OPEN ACCOUNT
652.	OPEN ACCOUNT
653.	OPEN ACCOUNT
654.	OPEN ACCOUNT
698.	TOTAL EXPENSES & DEDUCTIONS
699.	NET OPERATING PROFIT
B.	OTHER BUSINESS INCOME
480.	INTEREST INCOME
481.	RENTAL INCOME
482.	ROYALTIES INCOME
490.	PURCHASE DISCOUNTS
491.	VOLUME DISCOUNTS
492.	OTHER
397.	NET PROFIT

SIGNATURE ____________

DATE PROCESSED ____________ BUSINESS NAME ____________

2.78

TABLE 3. SUMMARY OF GROSS MARGINS AND NET DECREASE

CODE NO. ____________

A.	DEPARTMENTAL GROSS MARGINS	
599.01	DEPARTMENT 1	
599.02	DEPARTMENT 2	
599.03	DEPARTMENT 3	
599.04	DEPARTMENT 4	
599.05	DEPARTMENT 5	
599.06	DEPARTMENT 6	
599.07	DEPARTMENT 7	
599.08	DEPARTMENT 8	
599.09	DEPARTMENT 9	
599.10	DEPARTMENT 10	
599.	TOTAL OF DEPARTMENTAL GROSS MARGINS	
480.	OTHER BUSINESS INCOME	
B.	TOTAL RETURNS AND NET INCREASES	
C.	EXPENSES AND NET DECREASES	
181.	LAND	
182.	BUILDINGS	
184.	EQUIPMENT & FIXTURES	
186.	VEHICLES	
605.	LABOR COSTS	
612.	ADVERTISING	
613.	UTILITIES	
617.	INSURANCE	
624.	LEGAL & ACCOUNTING	
625.	TAXES & LICENSES	
626.	CONTRIBUTIONS & DONATIONS	
627.	SHOP & OFFICE EXPENSE	
629.	ENTERTAINMENT, DUES & TRAVEL	
638.	BAD DEBTS	
639.	RENT PAID	
641.	MISCELLANEOUS & OTHER EXPENSES	
642.	DELIVERY & POSTAGE	
644.	SELLING EXPENSE	
646.	TRASH & BREAKAGE	
648.	COLLECTION & BANK CHARGES	
650.	SUPPLIES	
D.	INTEREST ON NON-CASH INVESTMENT (6%)	
E.	TOTAL EXPENSES AND NET DECREASES	
RLM.	RETURN TO OPERATORS LABOR & MANAGEMENT	

DATE PROCESSED________________ BUSINESS NAME____________________

TABLE 4. BALANCE SHEET - BUSINESS ONLY

CODE NO.____________________ BUSINESS YEAR____________________

		(A)	(B) BEGINNING	(C)	(D) ENDING
A.	ASSETS				
100.	CURRENT ASSETS:				
101.	CASH IN BANK				
102.	CASH - PETTY				
109.	ACCOUNTS REC. 0-30				
110.	ACCOUNTS REC. 30-60				
111.	ACCOUNTS REC. 60-90				
112.	ACCOUNTS REC. > 90				
108.	TOTAL A/R				
114.	ALL. FOR BAD DEBTS				
B.	NET A/R				
115.	NOTES RECEIVABLE				
116.	OPEN				
121.	MDSE. INVENTORY				
141.	SECONDARY MDSE. INV.				
161.	PREPAID INSURANCE				
162.	PREPAID TAXES				
163.	OPEN				
179.	TOTAL CURRENT ASSETS				
180.	FIXED ASSETS:		REMAINING VALUE		REMAINING VALUE
181.	BARE LAND				
182.	BUILDINGS				
183.	ACCUM. DEPR. BLDGS				
184.	EQUIP. & FIXTURES				
185.	ACCUM. DEPR.-E & F				
186.	VEHICLES				
187.	ACCUM DEPR-VEHICLES				
190.	TOTAL FIXED ASSETS				
199.	TOTAL ASSETS				

DATE PROCESSED________ BUSINESS NAME________

2.80

TABLE 4. CONTINUED

CODE NO.________ BUSINESS YEAR________

		(A)	(B) BEGINNING	(C)	(D) ENDING
C.	LIABILITIES				
200.	CURRENT LIABILITIES:				
209.	ACCT. PAY. 0-30				
210.	ACCT. PAY. 30-60				
211.	ACCT. PAY. 60-90				
212.	ACCT. PAY. > 90				
208.	TOTAL A/P				
216.	NOTES PAY.-BANK				
217.	NOTES PAY.-OTHER				
218.	ACCRUED INTEREST				
219.	OPEN				
220.	FED. & FICA PAY.				
221.	STATE WITH. PAY.				
222.	FED. UNEMP. PAY.				
223.	STATE UNEMP. PAY.				
224.	STATE SALES TAX PAY.				
225.	PROPERTY TAX PAY.				
226.	OPEN				
250.	TOTAL CURR. LIAB.				
260.	LONG-TERM LIABILITIES:				
261.	MORTGAGE PAY.				
262.	INTERMED. LOANS				
263.	OPEN				
295.	TOTAL LONG-TERM LIAB.				
299.	TOTAL LIABILITIES				
300.	OWNERS EQUITY				
310.	CAPITAL ACCT.-OWNER				
311.	CAPITAL ACCT.-OTHER				
312.	CAPITAL ACCT.-OTHER				
320.	DRAW ACCT.				
321.	FED. & STATE EST. TAX				
396.	SUSPENSE				
397.	NET PROFIT				
379.	TOTAL EQUITY				
390.	TOTAL LIAB. EQUITY				
D.	GAIN OR LOSS IN OWNERS EQUITY				
E.	RATIO - CURRENT ASSETS/CURR. LIAB.				
F.	RATIO - CURRENT LIAB./INVENTORY				
G.	RATIO - FIXED ASSETS/OWNERS EQUITY				
H.	RATIO - LAND & BLDGS/L-T LIAB.				
I.	RATIO - TOTAL ASSETS/TOTAL LIAB.				
J.	RATIO - TOTAL ASSETS/OWNERS EQUITY				
K.	QUICK RATIO-CASH, A/R, ETC./CURR. LIAB.				

SIGNATURE________

DATE PROCESSED ____________________ BUSINESS NAME ____________________

2.81

TABLE 5. NET WORTH

CODE NO. ____________________

A.	BUSINESS ASSETS		
101.	CASH ON HAND & IN BANK (BUSINESS ONLY)	________	________
108.	TOTAL ACCOUNTS RECEIVABLE	________	________
115.	NOTES RECEIVABLE	________	________
121.	MERCHANDISE INVENTORY	________	________
161.	OTHER CURRENT ASSETS	________	________
181.	BARE LAND	________	________
182.	BUILDINGS	________	________
184.	EQUIPMENT & FIXTURES	________	________
186.	VEHICLES	________	________
199.	TOTAL BUSINESS ASSETS	________	________
B.	PERSONAL ASSETS		
C.	LAND & BLDGS.	________	________
D.	OTHER NON-BUSINESS ASSETS	________	________
E.	TOTAL ASSETS	________	________
F.	BUSINESS LIABILITIES		
250.	CURRENT LIABILITIES	________	________
295.	LONG-TERM LIABILITIES	________	________
299.	TOTAL BUSINESS LIABILITIES	________	________
G.	PERSONAL LIABILITIES	________	________
H.	TOTAL LIABILITIES	________	________
I.	TOTAL NET WORTH (BUSINESS & PERSONAL)	________	________
J.	CHANGE IN TOTAL NET WORTH		________
RLM.	RETURN TO OPERATORS LABOR & MANAGEMENT		________
CLM.	RETURN TO CAPITAL, FAMILY, LABOR & MANAGEMENT		________
088.	NON-BUSINESS INCOME		________
070.	TOTAL MONEY BORROWED (BUSINESS & PERSONAL)		________
074.	TOTAL PAID ON DEBT (PRINCIPAL ONLY-BUSINESS & PERSONAL)		________
K.	TOTAL HOUSEHOLD AND PERSONAL CASH EXPENSE		________

DATE PROCESSED ____________ BUSINESS NAME ____________
2.82

TABLE 6. HOUSEHOLD AND PERSONAL EXPENSES

CODE NO. ____________

090.	NUMBER OF PERSONS PER FAMILY	______
095.	ADULT EQUIVALENTS PER FAMILY	______
800.	EXPENSES	
813.	HEAT	$ ______
814.	ELECTRICITY	______
815.	WATER	______
816.	TELEPHONE	______
817.	INSURANCE	______
818.	INTEREST	______
819.	REPAIRS & MAINT. - LAND	______
820.	REPAIRS & MAINT. - BUILDINGS	______
821.	REPAIRS & MAINT. - EQUIPMENT & FURNISHINGS	______
822.	REPAIRS & MAINT. - VEHICLES	______
823.	GAS, OIL & GREASE	______
824.	LEGAL & ACCOUNTING	______
825.	PROPERTY TAXES	______
826.	CONTRIBUTIONS & DONATIONS	______
829.	ENTERTAINMENT	______
830.	DUES & SUBSCRIPTIONS	______
831.	LICENSES	______
832.	TRAVEL & RECREATION	______
839.	RENT	______
841.	MISCELLANEOUS	______
843.	POSTAGE	______
850.	SUPPLIES	______
860.	CHURCH	______
862.	MEDICAL EXPENSES	______
864.	FOOD & MEALS	______
866.	CLOTHING	______
868.	EDUCATION	______
A.	TOTAL CASH LIVING EXPENSES	______
760.	LAND PURCHASED	______
770.	BUILDINGS PURCHASED	______
780.	EQUIPMENT & FURNISHINGS PURCHASED	______
790.	VEHICLES PURCHASED	______
B.	TOTAL HOUSEHOLD AND PERSONAL CASH EXPENSE	______
870.	FAMILY USE OF GOODS & SERVICES	______
C.	TOTAL HOUSEHOLD CASH & NON-CASH EXPENSE	______

2.83

DATE PROCESSED________________ BUSINESS NAME________________

TABLE 7. MEASURES OF BUSINESS ORGANIZATION AND EFFICIENCY

CODE NO. ________________

A. BUSINESS SIZE
B. AVERAGE BUSINESS INVESTMENT [(TOTAL ASSETS-BEGINNING + TOTAL ASSETS-END) ÷ 2] $______
C. TOTAL GROSS MARGIN (NET SALES MINUS COST OF GOODS SOLD) ______
D. YEARLY WORKER EQUIVALENT (2000 HOURS PER WORKER) ______

E. LABOR EFFICIENCY
F. GROSS MARGIN PER WORKER (EQUIVALENT) ______
G. TOTAL BUSINESS INVESTMENT PER WORKER (EQUIVALENT) ______

H. OVERHEAD
I. TOTAL EXPENSES ÷ $1000 OF GROSS MARGIN ______
J. TOTAL EXPENSES PER WORKER (EQUIVALENT) ______

K. TURNOVER
L. TOTAL GROSS MARGIN PER $1000 OF AVERAGE BUSINESS INVESTMENT ______
M. INVENTORY TURNOVER (NET SALES ÷ YEAR END INV.) ______

N. CREDIT CONTROL
O. RECEIVABLE TURNOVER (NET SALES ÷ YEAR END A/R) ______
P. COLLECTION PERIOD [YEAR END A/R ÷ (NET SALES ÷ 360)] ______

Q. RATIO ANALYSIS
R. NET OPERATING PROFIT TO NET SALES ______
S. NET SALES TO OWNERS EQUITY ______
T. NET SALES TO AVERAGE INVENTORY ______
U. NET SALES TO WORKING CAPITAL [NET SALES ÷ (YEAR END CURRENT ASSETS MINUS YEAR END CURRENT LIABILITIES)] ______
V. RETURN PER HOUR ON OPERATOR & UNPAID FAMILY LABOR ______
W. RETURN ON BUSINESS INVESTMENT (NET OPERATING PROFIT ÷ AVERAGE BUSINESS INVESTMENT) ______

DATE PROCESSED ____________________

2/84

BUSINESS NAME ____________________

DEPARTMENT ____________________

TABLE 9.__ DEPARTMENTAL INCOME AND EXPENSE STATEMENT

CODE NO. ________________

400.	INCOME
421.	MERCHANDISE SALES
441.	SECONDARY SALES
460.	CUSTOMER LABOR
461.	OUTSIDE LABOR
462.	INTERNAL LABOR
463.	WARRANTY LABOR
472.	INTERNAL PARTS
473.	WARRANTY PARTS
475.	NET SALES OF GOODS & SERVICES
500.	COST OF GOODS OR SERVICES SOLD
121.	BEGINNING INVENTORY
521.	MDSE. PURCHASED
541.	SECONDARY PURCHASES
550.	FREIGHT-IN COSTS
561.	SUBLET LABOR
570.	COST OF LABOR
A.	GOODS OR SERVICES AVAILABLE
121.	ENDING INVENTORY
598.	COST OF GOODS OR SERVICES SOLD
599.	GROSS PROFIT FROM SALES
600.	EXPENSES
609.	PAID FAMILY LABOR
610.	SALARIES & WAGES
611.	PAYROLL TAXES
612.	ADVERTISING
613.	HEAT
614.	ELECTRICITY
615.	WATER
616.	TELEPHONE
617.	INSURANCE
618.	INTEREST
619.	REPAIR & MAINT. - LAND
620.	REPAIR & MAINT. - BUILDINGS
621.	REPAIR & MAINT. - EQUIPMENT & FIX.
622.	REPAIR & MAINT. - VEHICLES
623.	GAS, OIL & GREASE
624.	LEGAL & ACCOUNTING
625.	PROPERTY TAXES
626.	CONTRIBUTIONS & DONATIONS
627.	SHOP EXPENSE
628.	OFFICE EXPENSE
629.	ENTERTAINMENT & PROMOTION
630.	DUES & SUBCRIPTIONS
631.	LICENSES

2.85

DATE PROCESSED ____________ BUSINESS NAME ____________

DEPARTMENT ____________

TABLE 9.__ CONTINUED

CODE NO. ____________

---

632. TRAVEL & CONVENTION ____________
633. POLICY ADJUSTMENT ____________
635. DEPRECIATION - BUILDINGS ____________
636. DEPRECIATION - EQUIP. & FIX. ____________
637. DEPRECIATION - VEHICLES ____________
634. DEPRECIATION TOTAL ____________
638. BAD DEBTS ____________
639. RENT ____________
640. CASH SHORT/LONG ____________
641. MISCELLANEOUS ____________
642. DELIVERY ____________
643. POSTAGE ____________
644. SELLING EXPENSE ____________
645. EMPLOYEE BENEFITS ____________
646. TRASH & GARBAGE REMOVAL ____________
647. BREAKAGE & SPOILAGE ____________
648. COLLECTION EXPENSE ____________
649. BANK CHARGES ____________
650. SUPPLIES ____________
651. OPEN ACCOUNT ____________
652. OPEN ACCOUNT ____________
653. OPEN ACCOUNT ____________
654. OPEN ACCOUNT ____________
698. TOTAL EXPENSES & DEDUCTIONS ____________
699. NET OPERATING PROFIT ____________

B. OTHER BUSINESS INCOME

480. INTEREST INCOME ____________
481. RENTAL INCOME ____________
482. ROYALTIES INCOME ____________
490. PURCHASE DISCOUNTS ____________
491. VOLUME DISCOUNTS ____________
492. OTHER ____________
397. NET PROFIT ____________

C. SUPPLEMENTARY MANAGEMENT INFORMATION

D. TOTAL HOURS OF LABOR REQUIRED ____________
E. TOTAL INVESTMENT REQUIRED ____________
F. DEPARTMENTAL PROFIT PER WORKER UNIT ____________
G. DEPARTMENTAL PROFIT PER $1000 INVESTED ____________
H. DEPARTMENTAL PROFIT PER $100 OF TOTAL COST ____________
I. RATIO OF NET PROFIT TO NET SALES ____________

Year II--Unit 3

MEASURES OF SMALL BUSINESS SIZE

Part I. Student Objectives

A. Utilizing a sample small business analysis report, the student will be able to define those terms used in the report to measure a small business size and to understand the relationship between size and earnings.

B. Given a sample summary of business inventories, balance sheet and net worth statement from the small business analysis report, the student will be able to calculate (with 100% accuracy) measures of small business size identified by the instructor as being significant to his/her business.

Part II. Transition of Units

The previous unit began to establish the detailed background necessary to understand the "why" of small business profit measures. It is the first step toward understanding the business analysis to be prepared in March.

This unit will add additional terminology and understanding concerning the physical and financial size of the business and the relationship between size and earnings.

The following unit on general interpretation of the analysis is timed to coincide with the first year's business analysis. It will make use of other measures in addition to the measures dealt with in the previous two units and will compare them to industry and program averages.

Part III. Lesson

Attention Focuser

Using the ACA Barometer of Small Business, select the region of the country represented by the center location and compare one or more types of businesses in the program (using gross volume of sales as the indication of size) with the regional average for that type of business.

Handouts may be prepared of each type of business so that the cooperator could make the comparison with his business himself.

KEY QUESTION 1. How do you define, calculate and use the measure of Total Business Investment?

A. Definition. This term includes the cash, accounts receivable, merchandise, supplies, equipment, power, buildings and land utilized in the operation of a business to produce profit.

B. Calculation. Total Assets Beginning of Year plus End of Year divided by 2 (T4 L199 of the Balance Sheet).

$$\frac{\$64,332 + \$90,184}{2} = \$77,258$$

C. Use. Total Business Investment includes all those assets used to produce a profit without respect to liabilities, and can thus be used in size comparisons.

D. Use. How intensively these investments are managed can determine the profitability of the business.

Suggested Teaching Strategy

This class activity is suggested for presenting Key Questions 1-4 in this unit. Distribute to each family a blank copy of an annual small business analysis (should be available from previous unit) and the sample small business account for this unit. Give them a small supply of lined paper and pencils if necessary.

Write the key question on the board. Spend a few minutes defining the measure or ratio, allowing the class to offer their definitions.

Show the calculations on the board using the item description, Have them complete the actual calculations referring the class members to the appropriate table in the blank analysis and to the sample small business account. After allowing a few minutes to complete these calculations, put the correct calculations on the board.

Discuss the use of the measure or ratio again, allowing for class participation.

KEY QUESTION 2. How do you define, calculate and use the measure of Owner's Equity or Net Worth?

A. Definition. This term shows the excess amount of assets over liabilities owned. This includes business assets only on the balance sheet and business and personal assets on the net worth statement.

B. Calculation.

Table 4. Owner's Equity (Business Only)

Line	Item	Beginning	Ending
199	Total Business Assets	$64,332	$90,184
299	Total Business Liabilities	37,887	41,246
379	Owner's Equity	26,445	48,938

Table 5. Net Worth

Line	Item	Beginning	Ending
E	Total Assets	$92,127	$118,757
H	Total Liabilities	39,853	41,883
I	Total Net Worth	52,274	76,874

C. Use. In the case of owner's equity, it shows the portions of the total business investment contributed by the owner and by others. This term is used in solvency ratios.

D. Use. Owner's Net Worth includes personal assets and liabilities (other than business). This measure is important in planning and achieving personal or family goals and objectives.

KEY QUESTION 3. How do you define, calculate and use the measure of Total Gross Margin?

A. Definition. This measure is net sales minus cost of goods sold (T2.1 L475 minus T2.1 L598).

B. Calculation. Net Sales minus Cost of Goods = Gross Margin or Gross Profit.

$153,203 (100%) minus $92,396 (60%) = $60,807 (40%) Gross Margin

C. Use. Gross profit variations have several causes, the most common of which are variations in sales price, cost price and sales volume. A fourth cause could be a variance in the sales mixture. "The sales mixture variation refers to the difference in gross profit occasioned by a change in the percentage distribution of sales of various items in the firm's product line. Not all products carry the same percentage of gross profit, and this causes the variation." (Broom and Longenecker, pp. 322-323) These causes may act singly or together to produce variations.

KEY QUESTION 4. How do you define, calculate and use the measure of Total Business Investment Per Worker?

A. Definition. This is a statement of all assets in a business put on a per worker basis with no regard to ownership of the assets.

B. Calculation. Total Assets T4 L199 Beginning of Year plus End of Year divided by 2, divided by Number of Workers Required T1 Line C.

$$\frac{\$64{,}332 + \$90{,}184}{2} = \$77{,}258$$

$$\frac{\$77{,}258}{3.5} = \$22{,}074$$

C. Use. This measure shows a relationship between the Business Investment and Number of Workers. In comparative studies it should be used with the measure "Net Return Per Worker."

KEY QUESTION 5. How do you define, calculate and use the measure of Number of Workers Required?

A. Definition. This measure accounts for all of the workers in the business based on a 2000 hours per worker yearly worker equivalent.

B. Calculation. All worker labor used in the business must be equated to an hourly basis. This figure includes employees, unpaid family labor and the hours worked by the operator. The resulting total hours figure is then divided by 2000 hours to get the Number of Workers Required.

C. Use. As this figure is based on 2000 hours of labor per year for all businesses, it can be used in comparative studies.

D. Use. When used in conjunction with profit figures, it enables an assessment of the profitability of labor.

Suggested Teaching Strategy

Write the key question on the board. Spend a few minutes defining the measure.

This measure cannot be calculated within the blank small business analysis report. Only the answer can be shown on Table 1, Line C. However, all the data needed to calculate this measure will be found in the attached Sample Small Business Account for Unit 3.

Students can calculate these figures on a blank sheet of paper and transfer the total to Table 1. After allowing several minutes for the calculations, put the correct figures on the board.

Discuss the use of this measure, allowing time for class discussion.

Part IV. Summary

A. Several physical and financial figures have been identified as measures of small business size. Certain measures may be more important in some years than in others due to fluctuations in labor costs, interest rates or business activity.

B. As the size of business increases, it is generally possible to show a greater amount of profit return. Labor, equipment and other investments can be used more efficiently.

Part V. At-The-Business Instruction

Review the measures of small business size dealt with in the last class session.

Ask the business operator which measures apply significantly to that business.

Assist in the selection of those measures that may be most important to the business.

If a preliminary year end analysis is available, assist the operator in interpreting it, relative to measures of size.

If the annual report is not yet available, but some measures can be calculated from available data, assist the business operator with these calculations.

Ask the business operator to evaluate the measures of size that indicate a strong or weak position of that business in relation to previous experience or to industry averages.

Part VI. Resources

Overhead Projector
Chalkboard, Chalk and Eraser
Handouts of Blank Small Business Analysis Report
Handouts of Sample Small Business Analysis Report, Appendix A
Transparencies of Sample Small Business Analysis Report
Supply of Lined Paper and Pencils

Part VII. References

A. References Cited

Broom, H.N. and Justin G. Longenecker, Small Business Management, Third Edition, South-Western Publishing Company, Cincinnati, 1971.

B. Other References

1. Accounting Corporation of America, Barometer of Small Business, San Diego, California, 1975.

2. Gordon, Myron J. and Gordon Shillinglaw, Accounting: A Management Approach, Fourth Edition, Richard D. Irwin, Inc., Homewood, Illinois.

Part VIII. Appendices

A. Sample Small Business Account for Year II

Appendix A

Sample Small Business Account For Year II--Unit 3

	Beginning	Ending
Total Current Business Assets	$ 33,485	$ 59,791
Total Fixed Business Assets	30,847	30,393
Total Business Assets	$ 64,332	90,184
Total Current Business Liabilities	$ 8,014	14,773
Total Fixed Business Liabilities	29,873	26,473
Total Business Liabilities	$ 37,887	$ 41,246
Total Assets (Business and Personal)	$ 92,127	118,757
Total Liabilities (Business and Personal)	$ 39,853	41,883
Net Sales	$153,203	
Cost of Goods or Merchandise Sold	$ 92,396	

One worker is equivalent to 2000 hours of labor per year.

Mr. Brown (the owner) worked 12 months in the business (assume 2000 hours).
Mrs. Brown worked 500 hours as the bookkeeper without pay.
There were also 500 hours of part-time or day labor.
Two full-time employees worked 2000 hours each.
Total hours worked throughout the year = 7000 hours.

Year II--Unit 4

GENERAL INTERPRETATION OF THE ANALYSIS

Part I. Student Objectives

A. Utilizing prior goal statements and a follow-up discussion on the formation of goals, the enrolled business families will be able to evaluate progress toward established goals and adjust them if necessary.

B. Utilizing a sample small business analysis report the student will be able to define those general efficiency terms used in the report relating to managerial performance.

C. Given a sample small business account the student will be able to calculate (with 100% accuracy) those general efficiency measures identified as being significant to his/her business by the instructor.

D. Using industry related data and his/her own historical data, the student will be able to recognize measures and ratios common to his/her business which can be used to observe trends within his/her business and as a comparison to related industries.

Part II. Transition of Units

The previous unit contributed to the terminology and understanding of the physical and financial size of the business and the relationship between size and earnings.

This unit includes some additional measures of general efficiency related to managerial performance. An effort is made to introduce the concept of trends in some of the measures and ratios dealt with. Subsequent revisions may place all measures and ratios into units two and three and devote Unit 4 entirely to trends. This could occur as additional analysis data becomes available over the next few years.

The following unit will include an in-depth treatment of inventories and their relationship to the operation and profit potential of a business.

Part III. Lesson

Attention Focuser

This unit should be taught when all of the students have received their second business analysis. The following statement may be appropriate. The business analysis to the operator is like a road map to the traveler. The traveler needs a complete and detailed map to give him confidence and for a comfortable journey. A business operator builds his own "map", the business analysis. While this "map" may be compared to the "maps" of other operators, its primary value is the story it tells about the operator's own business.

KEY QUESTION 1. How are business and family goals related?

The increasing change and complexity of small business and the increasing costs of family living suggest that business and family goals must be considered together. An important aspect of this unit is the discussion, writing and future value of business and family goals.

The first time business and family goals are written they may be quite sketchy. One might view the effort as a "staking out of the road" exercise to establish where the business family will start in building their road to success.

Goals and objectives need to be written because:

HEAR -- FORGET
SEE -- REMEMBER
DO -- LEARN

Putting goals and objectives down on paper allows the instructor a chance to evaluate, comment and make suggestions in a constructive manner. As goals and objectives are modified, the path to realization should become clearer.

In thinking of your business and family goals, remember these points:

1. All family members should contribute.
2. Recognize both individual and family values.
3. Recognize both individual and family goals.
4. Recognize both short and long term goals.
5. Select goals in terms of available resources.
6. Competition among goals is normal and desirable.
7. Goals should be modified as resources change.

Individual and family values and goals need to be clarified before general business and family goals can be formulated.

Suggested Teaching Strategy

This unit provides an excellent opportunity to evaluate the progress families have made toward the goals they established last year and to adjust those goals in terms of their current knowledge of the capabilities of their business and family. Because this unit comes at the same time as the general review of the first year's business analysis it provides an excellent vehicle for putting the results of the analysis in the perspective of family and business goals.

Refer to Year I--Unit 1 for additional resource data. Adapt the following suggestions to fit the appropriate stage of development of goals for most students.

Begin the class with a general discussion of how business and family goals are related. The need to write down these goals can be stressed with the HEAR--SEE--DO illustration. Discuss the use of the business analysis as a future tool in measuring progress towards stated goals.

Utilize Appendix A to set the stage for goals formulations. Appendix B should be used to help families to clarify their values and some general goals. This appendix should be worked on briefly in class with enough copies to be taken home for other family members to work on. There are no right or wrong answers. Appendix C relates to the two previous ones. Each family or business represented should attempt to sketch in some of the items blocked out in this appendix.

Emphasize that these goals and objectives need to be worked on until they are reasonably complete and that they will be reviewed periodically for signs of progress and need for modification.

KEY QUESTION 2. How do you define, calculate and use the measure Net Sales to Net Working Capital?

A. Definition: Net Working Capital is determined by subtracting current liabilities from current assets. Net Sales is then divided by Net Working Capital to arrive at Net Working Capital Turnover.

B. Calculation:

$$\frac{\text{Net Sales}}{\text{Year End Current Assets minus Year End Current Liabilities}}$$

= Net Working Capital Turnover

$$\frac{\$153,203}{\$59,791 \text{ minus } \$14,773} = 3.40$$

C. Use: "How many times Net Working Capital turns over in a year in Sales is a good measure of activity for any business. It is a sensitive indicator of overtrading or undertrading; and as such, it is a good test of the adequacy of Net Working Capital for the scale of operation of the firm.

"When this ratio is too high, it will usually be found that the dealership is short of cash and heavy on receivables and paid-for inventory. This situation promotes borrowing or sale of equipment at a loss to meet payroll and other fixed obligations. When it is low, inefficient use of capital in the dealership is indicated. It is usually attended by a pile-up of receivables or inventory or cash, or a combination of these, in excess of the needs of the business." (National Farm and Power Equipment Dealers Association, p. 5.)

Suggested Teaching Strategy

This class activity may be used for Key Questions 1-3. Each member of the class should have a blank copy of the small business analysis and a sample small business account. Give each family a small supply of lined paper and pencils if necessary.

Write the key question on the board and spend a few minutes defining the measure allowing for class participation.

Using the item description show the calculation on the board. Refer the class members to the appropriate table in the blank analysis and the sample small business account and have them complete the actual calculations. After allowing a few minutes to complete these calculations, put the correct calculations on the board.

Discuss the use of the measure, again allowing for class participation.

KEY QUESTION 3. How do you define, calculate and use the measure Net Sales to Owner's Equity?

A. Definition: This is a measure of turnover of invested capital.

B. Calculation:

$$\frac{\text{Net Sales}}{\text{Owner's Equity}} = \text{Invested Capital Turnover}$$

$$\frac{\$153{,}203}{\$\ 48{,}938} = 3.13$$

C. Use: This measure shows the number of times the invested capital owned by the operator is turned over during the year.

Note: The following measures will be calculated in the analysis. They may be found to have significance as trends are observed in future analyses or they may be discarded as insignificant.

The calculations for these measures are shown below.

Total Expenses/$1,000 Gross Margin	$\frac{\$29{,}344}{\frac{\$60{,}807}{1000}} = \$483$
Return Per Hour On Operator and Unpaid Family Labor	$\frac{\$29{,}663 + \$1{,}000}{\$2{,}500} = \$12.27$
Total Business Investment Per Worker	$\frac{\$77{,}258}{3.5} = \$22{,}074$
Gross Margin Per Worker	$\frac{\$60{,}807}{3.5} = \$17{,}373$

Net Return Per Worker $\frac{\$31,463 + 15,658}{3.5} = \$13,463$

Total Expenses Per Worker $\frac{\$29,344}{3.5} = \$8,384$

Suggested Teaching Strategy

The above six measures or ratios may have additional significance as more year end analyses are available. It is probably adequate at this time to show the calculations on the board and allow a brief discussion pertaining to the value of each. Students may wish to follow the calculations in their blank small business analysis and the sample small business account.

KEY QUESTION 4. How do you identify measures or ratios within a small business analysis which may be used to study significant trends?

A. Measures that are common to industry publications and have an historically proven value in showing trends.

B. Measures that can be consistently calculated from like data on a year-to-year basis.

C. Judgment as to the importance of the measure to an analysis of the business.

Suggested Teaching Strategy

Write the key question on the board and preface the class discussion with an explanation that trends are built from data collected over a period of time. With only one year's analysis available the treatment at this time can only be concerned with industry averages, or with existing figures from previous business records if data was arrived at in a like manner. Give class members Dun and Bradstreet's Key Business Ratios for Retailing (handout).

Allow for class discussion being sure to cover at least the points in A, B, and C above.

Part IV. Summary

A. Turnover ratios are indicators of business activity. They provide current indications of problems and provide the basis for studying trends.

B. Not all measures and ratios are important to each and every business. Continued study of relationships between various figures will determine their ultimate significance. Adequate data collected over a period of time is essential to this study.

Part V. At-The-Business Instruction

Review the measures and ratios dealt with in the last class session.

Ask the business operator which measures may be significant to that business. Assist in this selection.

If the year-end analysis is available, assist the business operator in a general interpretation of the business based on the several measures identified as being significant to that business.

Relate significant measures to industry data if appropriate.

Part VI. Learning Resources

Overhead Projector
Chalkboard
Handouts of Blank Small Business Analysis Report
Transparencies of Sample Small Business Analysis Report
Handouts of Sample Small Business Account for Unit IV
Handouts of Dun & Bradstreet, Inc. Ratios
Supply of Lined Paper and Pencils

Part VII. References

A. References Cited

Dun and Bradstreet, Inc. Business Economics Department, Key Business Ratios, New York, 1973, pp. 4-5.

B. Other References

1. Agricultural Extension Service, "Rate Your Goals", University of Minnesota, FA-43, St. Paul.

2. National Farm and Power Equipment Dealers Association, Cost of Doing Business Study for 1972: Financial and Operating Profiles of Farm and Industrial Equipment Dealers, St. Louis, 1973.

Part VIII. Appendices

A. Remember These Points in Thinking of Your Business and Family Goals

B. Rate Your Goals

C. Goals

D. Sample Small Business Account for Year II--Unit 4

E. Key Business Ratios for Retailing

Appendix A

REMEMBER THESE POINTS IN THINKING OF YOUR BUSINESS AND FAMILY GOALS

What your family wants is the motivation for good management of your home and job or business. To prevent frustrations and to bring real satisfactions to the family are important also.

1. Get expression from everyone in the family. That's the reason for talking about wants and even sometimes writing them down. That's the simplest way way to be sure there are no hidden desires and ambitions.

2. Get agreement on what things are most important. It makes for happier relationships among family members and is a method of teaching values to children. Goals based on values of the family will lead to greater satisfactions.

3. Recognize that there are both individual and family goals. John's desire to become a basketball star may be individual, while a vacation each year is a family goal. However, the individual goal becomes the family's when they decide to use family resources to make it possible.

4. Recognize both short term and long term goals. Some things can be done immediately while others (like a college education for the children) may be far in the future, but should be discussed now in order that steps may be taken towards reaching them.

5. Select goals in terms of available resources. Be realistic about what you have in thinking of your wants so the family will not be constantly unhappy and dissatisfied.

6. Competition between goals is normal and desirable. None of us can ever have all we want of everything. Competition helps us to decide what is most important and makes us work harder to use our resources efficiently.

7. Constantly modify goals as resources change or as the family is able to use resources more efficiently.

Appendix B

Rate Your Goals*

Rate the following goals in terms of their importance to you. List number 1 after the goal that is most important, etc.

_____ 1. To provide more leisure time to engage in hobbies, to enjoy good friends, and for self-improvement.

_____ 2. To provide an attractive, comfortable and efficient home to meet family needs and happiness.

_____ 3. To provide the needs of business operations with modern equipment and buildings before improving the home.

_____ 4. To provide economic security; to be reasonable certain of ensuring an income adequate for family needs.

_____ 5. To provide for the needs of the home, using credit and other income before improving the business operation.

_____ 6. To provide financially for good educational opportunities for the children.

_____ 7. To enjoy good health.

_____ 8. To provide as much income as possible from the operation of the business.

_____ 9. To provide income levels from the business which will enable continued enjoyment of its freedom and independence.

_____10. To help plan and use influence in guiding policies and activities in the community for worthwhile purposes.

List 5 specific things you wish to accomplish in the next couple of years. (Individual, family or business)

1. ______________________________

2. ______________________________

3. ______________________________

4. ______________________________

5. ______________________________

---

*Adapted from "Rate Your Goals," Agricultural Extension Service, University of Minnesota, FA-43, St. Paul.

Appendix C

GOALS

In setting up goals the following points should be recognized:

1. All family members should contribute.
2. Recognize both individual and family values.
3. Recognize that there are both individual and family goals.
4. Recognize both long and short term goals.
5. Select goals in terms of available resources.
6. Competition among goals is normal and desirable.
7. Goals should be modified as resources change.

	SHORT TERM GOALS	LONG TERM GOALS
INDIVIDUAL		
Husband		
Wife		
Children		
FAMILY		
BUSINESS		

A profitable business or employment is the key to fulfillment of the entire family's goals.

Appendix D

Sample Small Business Account For Year II--Unit 4

Net Sales	$153,203
Current Assets--Year End	59,791
Current Liabilities--Year End	14,773
Merchandise Inventory--Year End	22,525
Owner's Equity--Year End	48,938
Total Expenses and Deductions	29,344
Gross Margin (Profit)	60,807
Return to Operator's Labor and Management	29,663
Value of Unpaid Family Labor	1,000
Hours of Operator's and Unpaid Family Labor	2,500
Total Business Assets--Average for Year	77,258
Number of Workers	3.5
Net Operating Profit from Business	31,463
Wages, Salaries and Commissions	15,658

Appendix E

Key Business Ratios for Retailing (1)

Line of Business (and number of concerns reporting)	Curr. assets to curr. debt	Net prof. on net sales	Net prof. on tang. net worth	Net prof. on net work. capit.	Net sales to tang. net worth	Net sales to net work. capit.	Col-lection per.	Net sales to inven.	Fixed assets to tang. net worth	Curr. debt to tang. net worth	Total debt to tang. net worth	Inven. to net work. capit.	Curr. debt to inven.	Funded debts to net work. capit.
	Times	%	%	%	Times	Times	Days	Times	%	%	%	%	%	%
5611 Clothing & Furnishings, Men's & Boys' (190)	4.56	4.62	13.71	17.01	4.54	5.35	*	6.1	5.3	24.3	57.7	63.4	36.6	12.1
	2.98	2.79	8.16	10.39	3.22	3.80	*	4.3	12.1	46.0	98.2	89.3	61.7	25.1
	1.97	1.07	3.57	4.17	2.23	2.70	*	3.1	24.2	85.0	174.2	127.9	95.1	46.8
5311 Department Stores (179)	4.44	3.31	10.19	13.08	4.69	5.72	*	7.0	13.1	24.7	55.1	59.0	42.9	19.0
	2.90	2.07	6.76	8.81	3.26	4.26	*	5.5	32.5	43.7	90.7	77.5	69.2	40.2
	2.09	0.96	2.90	4.04	2.65	3.32	*	4.4	62.4	70.0	131.1	108.7	103.0	70.0
5651 Family Clothing Stores (94)	4.84	4.29	12.74	14.85	4.95	5.59	*	7.0	5.5	20.3	58.2	50.7	37.1	22.5
	2.93	2.28	7.27	9.03	3.21	3.67	*	4.8	12.1	43.6	103.8	87.1	58.4	35.4
	2.13	1.01	4.13	4.60	2.19	2.74	*	3.6	26.5	76.5	158.7	123.7	89.3	54.9
5712 Furniture Stores (177)	5.61	4.78	13.70	13.98	4.78	6.28	37	6.9	4.9	21.3	45.9	32.2	55.7	9.1
	2.76	2.75	8.16	8.18	2.78	2.95	97	4.8	11.9	55.7	96.9	66.4	91.2	21.7
	1.74	1.07	3.69	3.78	1.61	1.64	191	3.5	26.3	117.2	192.9	118.5	139.5	40.2
5541 Gasoline Service Stations (69)	3.75	4.93	15.24	42.17	4.87	14.54	*	28.4	27.6	18.1	29.7	34.1	83.3	20.0
	2.18	2.52	9.08	21.44	3.19	7.33	*	10.9	49.6	30.2	66.5	70.3	129.9	74.8
	1.49	1.05	5.05	7.82	2.05	4.89	*	7.6	77.6	69.9	113.8	112.7	238.4	172.7
5411 Grocery Stores (134)	2.50	1.63	15.39	32.59	14.24	31.36	*	23.1	49.1	37.8	64.7	79.2	67.9	26.6
	1.81	0.91	9.41	18.20	10.30	21.10	*	16.1	72.1	60.8	100.4	130.7	91.8	64.6
	1.38	0.53	5.06	9.67	6.60	12.55	*	11.9	99.9	93.6	169.1	204.4	129.3	148.5
5251 Hardware Stores (90)	6.00	4.81	14.20	20.34	4.52	5.49	*	5.7	4.9	17.4	41.0	64.1	24.9	8.1
	3.23	2.81	8.75	10.14	3.20	3.68	*	4.0	14.5	36.9	100.0	86.5	49.0	28.8
	2.09	0.99	2.72	4.04	1.96	2.38	*	3.2	26.1	79.7	174.2	122.0	82.1	54.2
5722 Household Appliance Stores (82)	2.70	3.85	17.70	25.58	8.61	9.14	16	7.9	9.1	45.1	95.4	60.5	74.8	8.4
	1.82	2.04	9.30	11.28	4.83	6.11	34	5.4	17.4	101.3	203.8	118.6	102.4	27.8
	1.38	0.88	5.79	7.13	2.81	3.81	79	4.2	39.5	194.1	313.4	198.3	170.1	50.9

---

*Not computed.

[1] Dun and Bradstreet, Inc. Business Economics Department. Key Business Ratios. New York, 1973, pp. 4-5

Key Business Ratios for Retailing (1)

Line of Business (and number of concerns reporting)	Curr. assets to curr. debt	Net prof. on net sales	Net prof. on tang. net worth	Net prof. on net work. capit.	Net sales to tang. net worth	Net sales to net work. capit.	Col-lection per.	Net sales to inven.	Fixed assets to tang. net worth	Curr. debt to tang. net worth	Total debt to tang. net worth	Inven. to net work. capit.	Curr. debt to inven.	Funded debts to net work. capit.
	Times	%	%	%	Times	Times	Days	Times	%	%	%	%	%	%
5971 Jewelry Stores (76)	4.83	6.75	13.49	14.60	2.98	3.22	*	3.9	3.6	25.1	48.7	61.9	39.5	9.4
	3.17	3.61	8.44	9.12	2.02	2.37	*	2.7	9.6	44.2	89.4	84.5	63.2	19.7
	2.10	1.92	4.14	4.22	1.64	1.83	*	2.4	21.6	83.3	139.8	120.0	94.8	38.2
5399 Miscellaneous General Mdse. Stores (74)	5.82	3.80	13.79	15.99	5.80	6.07	*	6.6	7.6	19.0	57.9	59.5	26.0	13.8
	3.62	2.15	8.21	8.94	3.34	3.80	*	4.3	16.9	37.1	121.8	96.6	52.9	43.9
	1.89	1.03	2.58	3.08	1.94	2.31	*	3.1	34.7	81.4	177.3	142.6	80.0	80.7
5511 Motor Vehicle Dealers (101)	2.43	2.42	21.74	30.43	11.86	18.49	*	10.2	7.8	54.0	80.0	100.5	73.3	13.8
	1.69	1.65	12.93	22.30	8.80	12.40	*	8.2	18.7	98.1	156.4	153.9	89.2	44.1
	1.35	0.86	7.58	11.98	6.36	7.96	*	6.6	50.6	165.9	246.6	221.5	112.7	114.6
5531 Tire, Battery & Accessory Stores (55)	4.36	5.00	15.22	20.45	5.21	7.54	*	8.2	6.6	23.5	56.0	59.1	31.8	19.7
	2.21	2.03	9.62	12.32	3.50	4.80	*	5.3	16.3	52.3	76.3	90.2	91.4	30.1
	1.71	0.99	3.85	5.13	2.62	3.38	*	3.9	35.4	116.8	181.8	129.7	149.4	63.7
5331 Variety Stores (64)	4.75	3.87	15.27	19.15	5.48	7.22	*	5.1	14.1	19.6	50.5	90.9	31.1	15.2
	3.00	2.11	8.81	11.39	3.55	4.61	*	4.1	24.4	39.3	73.5	124.3	42.9	43.0
	2.06	1.07	3.72	4.62	2.59	3.37	*	3.0	51.4	66.9	105.4	156.4	69.2	66.1

*Not computed. Necessary information as to the division between cash sales was available in too few cases to obtain an average collection period usable as a broad guide.

[1] Dun and Bradstreet, Inc. Business Economics Department. Key Business Ratios. New York, 1973, pp. 4-5.

Year II--Unit 5

THE IMPORTANCE OF INVENTORIES

Part I. Student Objectives

A. Utilizing a sample balance sheet showing beginning and end of year inventories of current and fixed assets and liabilities, and the opportunity to participate in class discussion concerning its meaning and use, the student will be able to accurately interpret balance sheets from selected businesses and discuss their relationship to the business analysis.

B. Given a definition, calculation and use of merchandise inventory turnover ratios and measures as identified by the instructor, the student will be able to relate the significance of those selected items to their business analysis.

C. Given a definition, calculation and use of ratios and measures utilizing current and fixed assets and liabilities as identified by the instructor, the student will be able to discuss and explain the significance of these items in their business analysis.

Part II. Transition of Units

The previous unit dealt with some general efficiency measures related to managerial performance. The concept of "trends" in measures and ratios was stressed as a planning tool.

This unit will provide an in-depth look at inventories and their relationship to the operation and profit potential of a business. Various turnover ratios will be stressed as they relate to inventories.

The following unit will look at business size as it relates to land, labor, capital and management. Comparative ratios and measures are a significant part of the unit.

Part III. Lesson

Attention Focuser

Begin the presentation by displaying a plastic container full of ice. This is to represent the total assets of a business. Allow a small portion of the ice to melt prior to the class. In explaining the topic of this unit, pour out the liquid (water) into a clear container, illustrating that this could relate to one's current (or liquid) assets. The question may be asked how one knows the ideal or correct proportions.

KEY QUESTION 1. How does the balance sheet fit into the total business analysis?

The balance sheet is a listing of current and fixed assets, together with current and fixed liabilities, which are used to calculate the owner's equity. In addition, beginning and end of year figures are provided in all categories to allow calculations of percentage increase or decrease of each item, and to show the change in the owner's equity over the business year.

The Sample Balance Sheet shows the items which go together to make up the categories of current assets, fixed assets, current liabilities and fixed liabilities. Total assets less total liabilities equals the owner's equity. The gain or loss in equity from beginning to end of year plus the owner's draw should equal the net profit or income of the business.

Suggested Teaching Strategy

Use the Sample Balance Sheet from the appendices to illustrate this key question. Go over the current and fixed areas until you may reasonably assume all of the students understand the makeup of a balance sheet.

Calculate and show the percentage mix of current to fixed within both the total assets and total liabilities figures.

If the students have their business analysis in class, have them study it following coverage of the Sample Balance Sheet. They may wish to make some of the percentage calculations referred to above relative to the current fixed mix.

KEY QUESTION 2. Of what importance are the merchandise turnover ratios to your business analysis?

Inventory turnover is defined, calculated and used in Year II--Unit 2, Key Question 7, page 2.69.

Another way of looking at inventory turnover is to divide the average inventory into the cost of goods sold for the period. As in the above inventory turnover calculation this method simply provides a figure to use in comparison with another period. It tells nothing about the physical makeup of the inventory.

"Inventory as a percentage of current assets is another comparison that may be made between inventory and total current assets...But there is considerable variation between different types of companies, and thus the relationship is significant only when comparisons are made among companies in similar industry." (Merrill Lynch, Pierce, Fenner and Smith, p. 16)

Statistics dealing with inventories are published in most major business reporting services. An example may be found in appendix E of Year II--Unit 4, pages 2.103 and 2.104

Suggested Teaching Strategy

Again utilize the Sample Balance Sheet and Table 7 from the appendix. Additional figures you need for calculations are: Net Sales of $153,203 and Cost of Merchandise or Goods Sold of $99,396. If you use Net Sales and Year End Inventory the turnover will be 6.80. Using Cost of Goods Sold and Average Yearly Inventory the turnover is 3.54.

Both turnover calculations are correct if used to compare against like figures from other periods. It is suggested that the reason the prior figure is more popular is due to the difficulty in easily obtaining the Cost of Goods Sold figure.

"A careful analysis of the theory involved in computing the rate of turnover will indicate that the greater the turnover the smaller the margin need be on each dollar of sales in order to produce a satisfactory total gross margin on sales." (Carson, Carlson, and Boling, p. 262.)

The instructor needs to study the writings on Inventory Turnover found in the references or in most accounting texts to become thoroughly familiar with the topic before presenting it. If students have their business analysis in class have them relate this discussion to their family business situation.

KEY QUESTION 3. Of what importance are the combinations of current and fixed assets and liabilities to your business?

An examination of the current asset section of the balance sheet will show that this category of assets may easily be converted to cash. In contrast, fixed assets usually cannot be liquidated into cash very easily. Current liabilities are generally short term obligations in contrast to long term fixed liabilities.

"Generally speaking the ratio of current assets to current liabilities should be maintained in a range from 2 to 1 to 5 to 1. While a standard ratio cannot be established for all enterprises, a knowledge of the working capital requirements of a particular enterprise will be helpful in determining what the current ratio of assets to current liabilities should be." (Carson, Carlson, and Boling, p. 267)

"Generally, companies that have a small inventory and easily collectible accounts receivable can operate safely with a lower current ratio than those companies having a greater proportion of their current assets in inventory and selling their products on credit." (Merrill Lynch, Pierce, Fenner and Smith, p. 15)

Working capital is calculated by subtracting current liabilities from current assets. The amount of working capital generally determines a company's ability to meet obligations, take advantage of opportunities and to expand its volume. Turnover of working capital is determined as the ratio of Net Sales to Working Capital. This ratio can be used in comparison to previous period ratios in studying the current financial position.

Several additional ratios appear at the bottom of Table 4, "Balance Sheet," and on Table 7, "Measures of Business Organization and Efficiency", that may be worth briefly reviewing in the presentation of this unit.

__Suggested Teaching Strategy__

Again utilize the Sample Balance Sheet and Table 7 in the appendix for the discussion of this key question. The Net Sales figure used in *calculating the Working Capital Turnover is $153,203. The instructor needs to study the references to become thoroughly familiar with this topic.*

If the students have their business analysis in class, have them relate this discussion to their family business.

Part IV. Summary

A. The change in owner's equity as shown on the balance sheet is an important indicator of financial progress in a business.

B. Inventory turnover may be referred to as the "financial pulse" of the business. Constant checking and analysis are needed.

C. Having a desirable working capital position can allow the business operator to have the freedom needed to take advantage of opportunities.

Part V. At-The-Business Instruction

Go over the family business analysis with special reference to inventory turnover and analyzing the balance sheet. These topics will probably lead to a wide range discussion involving the physical makeup of the inventory, seasonality problems, various regulatory bodies (i.e. banks, insurance companies, etc.), interest in the financial position of businesses under their jurisdiction, and credit as it relates to one's financial solvency.

Be sure that the current year's inventories have been entered correctly and completely in the new record book or system.

Part VI. Learning Resources

Overhead Projector
Chalkboard, Chalk and Eraser
Transparencies and Handouts of Appendices
Transparencies of Dun and Bradstreet Ratios. See Year II--Unit 4 Appendix.

Part VII. References

A. References Cited

1. Carson, A.B., Arthur E. Carlson, and Clem Boling, College Accounting, 9th Edition, South-Western Publishing Co., Cincinnati, 1972.

2. Merrill Lynch, Pierce, Fenner and Smith, Inc., How To Read A Financial Report, 4th Edition, New York, May 1973.

B. Other References

1. Dun and Bradstreet, Inc., Business Economics Department, Key Business Ratios, New York, 1973.

2. Small Business Administration, Ratio Analysis for Small Business, by Richard Sanzo. Small Business Management Series No. 20, 2nd edition, Washington, D.C., U.S. Government Printing Office, 1960.

Part VIII. Appendices

A. Balance Sheet - Business Only (Table 4)

B. Measures of Business Organization and Efficiency (Table 7)

2.110

Appendix A

TABLE 4. BALANCE SHEET - BUSINESS ONLY

CODE NO. 23-00-000-001 BUSINESS NAME Brown Furniture

		(A)	(B)	(C)	(D)
			BEGINNING		ENDING
A.	ASSETS				
100.	CURRENT ASSETS:				
101.	CASH IN BANK		2925		32821
102.	CASH - PETTY		--		--
109.	ACCOUNTS REC. 0-30	802		870	
110.	ACCOUNTS REC. 30-60	105		2489	
111.	ACCOUNTS REC. 60-90	43		202	
112.	ACCOUNTS REC. 90	-		884	
108.	TOTAL A/R	950		4445	
114.	ALL. FOR BAD DEBTS	-		-	
B.	NET A/R		950		4445
115.	NOTES RECEIVABLE		--		--
116.	OPEN		--		--
121.	MDSE. INVENTORY		29610		22525
141.	SECONDARY MDSE. INV.		--		--
161.	PREPAID INSURANCE		--		--
162.	PREPAID TAXES		--		--
163.	OPEN		--		--
179.	TOTAL CURRENT ASSETS		33485		59791
180.	FIXED ASSETS:		REMAINING VALUE		REMAINING VALUE
181.	BARE LAND		3000		3000
182.	BUILDINGS	37000		37000	
183.	ACCUM. DEPR. BLDGS	14800	22200	16280	20720
184.	EQUIP. & FIXTURES	7800		7800	
185.	ACCUM. DEPR.-E & F	4453	3347	5097	2703
186.	VEHICLES	7600		5400	
187.	ACCUM DEPR-VEHICLES	5300	2300	1430	3970
190.	TOTAL FIXED ASSETS		30847		30393
199.	TOTAL ASSETS		64332		90184

CODE NO. 23-00-000-001

TABLE 4 CONTINUED

C.	LIABILITIES				
200.	CURRENT LIABILITIES:				
209.	ACCT. PAY. 0-30	--		--	
210.	ACCT. PAY. 30-60	--		2536	
211.	ACCT. PAY. 60-90	--		--	
212.	ACCT. PAY. > 90	--		--	
208.	TOTAL A/P		3027		2536
216.	NOTES PAY.-BANK		4187		11437
217.	NOTES PAY.-OTHER		--		--
218.	ACCRUED INTEREST		--		--
219.	OPEN		--		--
220.	FED. & FICA PAY.		800		800
221.	STATE WITH. PAY.		--		--
222.	FED. UNEMP. PAY.		--		--
223.	STATE UNEMP. PAY.		--		--
224.	STATE SALES TAX PAY.		--		--
225.	PROPERTY TAX PAY.		--		--
226.	OPEN		--		--
250.	TOTAL CURR. LIAB.		8014		14773
260.	LONG-TERM LIABILITIES:				
261.	MORTGAGE PAY.		29873		26473
262.	INTERMED. LOANS		--		--
263.	OPEN		--		--
295.	TOTAL LONG-TERM LIAB.		29873		26473
299.	TOTAL LIABILITIES		37887		41246
300.	OWNER'S EQUITY				
310.	CAPITAL ACCT.-OWNER		16445		26445
311.	CAPITAL ACCT.-OTHER		--		--
312.	CAPITAL ACCT.-OTHER		--		--
320.	DRAW ACCT.		10000		9550
321.	FED. & STATE EST. TAX		--		
396.	SUSPENSE		--		(565)
397.	NET PROFIT		20000		32608
379.	TOTAL EQUITY		26445		48938
390.	TOTAL LIAB. EQUITY		64332		90184
D.	GAIN OR LOSS IN OWNER'S EQUITY				22493
E.	RATIO - CURRENT ASSETS/CURR. LIAB.		4.18		4.05
F.	RATIO - CURRENT LIAB./INVENTORY		.27		.66
G.	RATIO - FIXED ASSETS/OWNER'S EQUITY		1.17		.62
H.	RATIO - LAND & BLDGS/L-T LIAB.		.84		.90
I.	RATIO - TOTAL ASSETS/TOTAL LIAB.		1.70		2.19
J.	RATIO - TOTAL ASSETS/OWNER'S EQUITY		2.43		1.84
K.	QUICK RATIO-CASH, A/R, ETC./CURR. LIAB.		.48		2.52

SIGNATURE ______________________

Appendix B

TABLE 7. MEASURES OF BUSINESS ORGANIZATION AND EFFICIENCY

CODE NO. 23-00-000-001 BUSINESS NAME Brown Furniture

A.	BUSINESS SIZE		
B.	AVERAGE BUSINESS INVESTMENT [(TOTAL ASSETS-BEGINNING + TOTAL ASSETS-END) ÷ 2]		$ 77258
C.	TOTAL GROSS MARGIN (NET SALES MINUS COST OF GOODS SOLD)		60807
D.	YEARLY WORKER EQUIVALENT (200 HOURS PER WORKER)	3.5	
E.	LABOR EFFICIENCY		
F.	GROSS MARGIN PER WORKER (EQUIVALENT)		17373
G.	TOTAL BUSINESS INVESTMENT PER WORKER (EQUIVALENT)		22074
H.	OVERHEAD		
I.	TOTAL EXPENSES ÷ $1000 OF GROSS MARGIN		483
J.	TOTAL EXPENSES PER WORKER (EQUIVALENT)		8384
K.	TURNOVER		
L.	TOTAL GROSS MARGIN PER $1000 OF AVERAGE BUSINESS INVESTMENT		787
M.	INVENTORY TURNOVER (NET SALES ÷ YEAR END INV.)	6.8	
N.	CREDIT CONTROL		
O.	RECEIVABLE TURNOVER (NET SALES ÷ YEAR END A/R)	34.47	
P.	COLLECTION PERIOD [YEAR END A/R ÷ (NET SALES ÷ 360)]		10.45
Q.	RATIO ANALYSIS		
R.	NET OPERATING PROFIT TO NET SALES		21%
S.	NET SALES TO OWNERS EQUITY		3.13
T.	NET SALES TO AVERAGE INVENTORY		5.88
U.	NET SALES TO WORKING CAPITAL [NET SALES ÷ (YEAR END CURRENT ASSETS MINUS YEAR END CURRENT LIABILITIES)]		3.40
V.	RETURN PER HOUR ON OPERATOR & UNPAID FAMILY LABOR		$ 12.27
W.	RETURN ON BUSINESS INVESTMENT (NET OPERATING PROFIT ÷ AVERAGE BUSINESS INVESTMENT)		41%

Year II--Unit 6

ANALYZING THE SIZE OF THE BUSINESS

Part I. Student Objectives

A. Given the measures and ratios used in analyzing land, labor and capital as related to the size of the business, the student will be able to utilize the actual business analysis to make selected decisions about business size.

B. Comparing data in an analysis of business size, both from the business itself and from outside the business, the student will be able to explain the role of management as it relates to the efficient utilization of business resources.

Part II. Transition of Units

The previous unit provided an in-depth look at inventories and their relationship to the operation and profit potential of a business. Various turnover ratios will be stressed as they relate to inventories.

This unit will provide an opportunity to look at business size as it relates to land, labor, capital and management. Comparative ratios and measures are a significant part of this unit.

The following unit will talk about the mechanization, labor, equipment and building costs of a business. Immediate efficiencies in each of these categories will be covered, as well as implications for long range planning.

Part III. Lesson

Attention Focuser

How big should the business be and what are the correct proportions of land, labor, capital and management? Use a monopoly game with houses, hotels and land ownership cards color-coded to identify at least two players. Set up a board to illustrate one player with considerable holdings but little cash, and other player with modest holdings (but including at least one hotel) and an average amount of cash. Utilize the game to discuss the eminent dangers involved when businesses are "out of balance."

KEY QUESTION 1. What factors should be considered when analyzing the business land holding?

Although land is less important to a small businessman than to a farmer, there is a need to look at the implications that land value, cost and location have for a small business. The business operator should regard his land first from the viewpoint of an ideal situation and then on a more realistic basis. It is important to recognize land as a fixed asset in the business. Utilization of land holdings larger than required for the business operation might be important as it relates to expansion, revenue production through rent, lease or sale, collateral for loans, and as a future investment.

A. Value of land as related to assets and liabilities

B. Costs
   1. Land cost and rates of taxation
   2. Waste disposal and water supply

C. Location
   1. Market
   2. Raw materials or merchandise supply
   3. Labor

Suggested Teaching Strategy

Spend about 10 minutes on this key question. In most instances, land is a "fixed asset" with its value as its primary use. Outline points A, B, and C on the chalkboard or on a transparency as you direct the discussion.

KEY QUESTION 2. How would you analyze the size of the business with respect to labor?

This key question will give the business operator and family several ways of looking at the labor utilized in the business. The measures indicated will have an historical basis after the first business analysis.

A.
$$\frac{\text{Return to Operator's Labor \& Management} + \text{Value of Unpaid Family Labor}}{\text{Hours of Operator and Family Labor}} = \text{Return Per Hour of Labor}$$

B.
$$\frac{\text{Gross Margin or Profit}}{\text{Yearly Worker Equivalent}} = \text{Gross Margin Per Worker Equivalent}$$

C.
$$\frac{\text{Net Operating Profit From Business} + \text{Wages, Salaries, \& Commissions}}{\text{Yearly Worker Equivalent}} = \text{Net Return Per Worker Equivalent}$$

D.
$$\frac{\text{Total Expenses \& Deductions}}{\text{Number of Yearly Worker Equiv.}} = \text{Total Expenses Per Worker Equivalent}$$

E. Labor costs and hours allocated to department ; direct and indirect labor considerations

Is my work force too large or too small? Is my work force efficient? Of what value is my family's labor? These questions may be raised as each operator looks at the business analysis. The operator and family are viewed as a unit when looking at return per hour of labor, compared with the measure of net return per worker, which includes all labor. The latter should be used with total business investment per worker to be meaningful. Labor allocated to departments can be looked at as direct labor costs and hours of workers involved in direct production or sales of that department, or as indirect labor of management and supportive service departments.

Suggested Teaching Strategy

Have each of the points A to D listed on the chalkboard or a transparency. As you refresh the students' memories on how the calculations are made for each measure, have them refer to their own business analysis. As each item is studied, ask the students to be alert for the correctness or appropriateness of each item.

Point E will be a discussion of labor allocation with an intent of arriving at better and more complete allocations.

KEY QUESTION 3. How does capital relate to business size?

"Analysis of capital requirements...must consider several types of needs. These needs include (1) working capital, (2) fixed asset capital, (3) promotional expense capital, and (4) funds to cover personal expenses for an initial period of operation." (Broom and Longenecker, p. 168)

A. $$\frac{\text{Total Assets, Beg. of Year} + \text{Total Assets, End of Year}}{2} = \text{Average Business Investment}$$

B. Total Business Assets minus Total Business Liabilities = Owner's Equity

C. $$\frac{\text{Net Sales}}{\text{Year End Current Assets} \text{ minus } \text{Year End Current Liabilities}} = \text{Net Working Capital Turnover}$$

D. $$\frac{\text{Net Sales}}{\text{Year End Merchandise Inventory}} = \text{Inventory Turnover}$$

E. $$\frac{\text{Net Sales}}{\text{Owner's Equity}} = \text{Invested Capital Turnover}$$

F. $$\frac{\text{Average Business Investment}}{\text{Yearly Worker Equivalent}} = \text{Average Business Investment Per Worker Equivalent}$$

Suggested Teaching Strategy

Utilize SBA transparencies 43 and 49 to illustrate the capital requirements in the above quotation and to suggest briefly the sources of funds. Some of the measures and ratios suggested in this key question can be found in most standard business reporting service reports. Other measures will become important as they develop a longitudinal pattern over time.

Refer to Year II--Units 3 and 4 for definition, calculation and possible uses of the items suggested in this key question. Again, have the students refer to their own business analysis, being alert to the correctness and appropriateness of each item. Additional insights to the capital picture can be gained by studying the ratios found at the bottom of the balance sheet.

KEY QUESTION 4. What is the role of management in an analysis of business size?

It is difficult to place a value on management. As one looks at the uses of various ratios and measures of efficiency for analyzing and planning in a business, management skills are being exercised. How well the components of land, labor and capital work together are a reflection of the effectiveness of management.

Suggested Teaching Strategy

Point out to the students the unbrella effect of management. You might refer back to the monopoly game in the attention focuser as an example of management's role.

Part IV. Summary

A. The analysis of business ratios and measures is the basis for the decision making process.

B. The role of management is to ensure the efficient utilization of business resources.

Part V. At-The-Business Instruction

Review the measures of business size with the business family. Discuss the distribution of labor hours and costs within the operator's business. Review family and business goals which may be affected should business size change. Explore the relationship proposed changes may have to other measures of business organization and efficiency.

Part VI. Resources

Chalkboard, Chalk and Eraser
Overhead Projector
Monopoly Game (as attention focuser)
SBA Transparencies 43 and 49

Part VII. References

A. References Cited

Broom, H.N. and Justin G. Longenecker, Small Business Management, 3rd edition, South-Western Publishing Company, Cincinnati, 1971.

B. Other References

1. Carson, A.B., Arthur E. Carlson and Clem Boling, College Accounting, 9th edition, South-Western Publishing Co., Cincinnati, 1972.

2. SBA Transparencies 43 and 49

3. Small Business Management II Curriculum, Units 3 and 4

Part VIII. Appendices - None

Year II--Unit 7

ANALYZING MECHANIZATION, LABOR, EQUIPMENT AND BUILDING COSTS

Part I. Student Objectives

A. Given examples of the role that expenses play in determining profit and a discussion on the role of budgets in analyzing expenses, the student will be able to discuss methods used to increase profits by controlling expenses.

B. Given the areas of the analysis that provide data for analyzing mechanization, labor, equipment and building costs and examples of how the business operator might view these costs, the student will be able to identify areas of concern within the business relative to these costs.

Part II. Transition of Units

The previous unit covered the analysis of the business size with relationship to land, labor, capital and management. The use of comparative ratios and measures were stressed as being significant to this analysis procedure.

This unit will take a detailed look at the costs to the business of mechanization, labor, equipment and buildings. Current costs may be compared to available data from standard industry reporting services and may be used for long range planning efforts.

The following unit will look at the efficiencies within each department of the business. Methods of allocating income and expenses will again be looked at for each department with respect to direct and indirect costs.

Part III. Lesson

Attention Focuser

Ask the following questions:

1. Would you rather pay for labor or pay yourself?

2. Are you sure you should buy all your equipment?

3. Is it necessary to own your building?

KEY QUESTION 1. How can an analysis of expense items help to increase profits?

This unit covers several major expense items not included in cost of goods sold. The major items appear on Table 3 of the Small Business Management Analysis under expenses and net decreases for equipment and fixtures, vehicles, buildings, land, labor and rent. The items of utilities, general store overhead and office maintenance and administration may be related to the major items.

"Sometimes you cannot cut an expense item. But you can get more use from it and thus increase your profits. In analyzing your expenses, you should use percentages rather than actual dollar amounts." (SBA, Abraham, p. 3)

"Thus, the small concern has the opportunity to reduce expenses as well as to control them. Expense deduction, if accomplished without loss of efficiency, makes possible price reductions or profit expansion, or both." (Broom & Longenecker, p. 356)

Most business operators would agree that they could reduce expenses by at least 5 percent without lowering efficiency. For the retailer, labor is a major item of expense along with rent and handling costs of the merchandise inventory. Important expense areas to the small manufacturer would be materials and supplies, direct labor costs, and cost of equipment and its operation. The business operator should concentrate on controllable expenses.

Suggested Teaching Strategy

It is important to show what is included in each of the items (see Appendix A) and how the calculation is made. The values shown on Table 3 for each of the expenses and net decreases items reflect what it cost to own and operate that item for the year. Spend about 10 minutes going over Appendix A with the class.

KEY QUESTION 2. What role can a budget play in analyzing expenses?

A monthly budget based on a business forecast or goal can be helpful in analyzing expenses, but only if an accurate statement of actual expenses can be produced monthly. The business operator may begin with a static budget which projects expenses based on one forecast of business activity. A flexible or variable budget may also be utilized which projects expenses if only 50% of the forecast is realized, and may go up to 120% of the forecast for some small manufacturers.

Suggested Teaching Strategy

Utilize Appendix B, "Monthly Expense Budget," when discussing this question. It is important to stress that the expense items should match the record-keeping system employed by the business operator. As one determines which expenses are controllable it can be illustrated how the columns headed "Estimated," "Actual" and "Over/Under" can be used in a monthly expense analysis. Stress those items dealing with mechanization, labor, equipment and building expenses.

KEY QUESTION 3. How can you analyze mechanization and equipment costs?

"The dictionary defines maintenance as 'the upkeep of property, machinery, equipment.'...Maintenance costs may be expressed in several ways, such as (a) percent of net sales, (b) percent of net property valuation, and (c) percent of net profits." (SBA, Rice, p. 2)

In addition to maintenance costs the business operator should consider inventories, purchases and sales in analyzing mechanization and equipment costs. These items appear on Tables 2, 2.1, 3 and 9 of the Small Business Analysis. Historical analysis data or monthly expense budget figures are essential data bases for a detailed analysis.

The Dun and Bradstreet, Inc., Costs of Doing Business Ratios publications (Corporations, Partnerships and Proprietorships) can aid analysis efforts by providing average percentage costs by industry and type of ownership category.

The business operator might also consider the cost of lost production due to deficiencies in the mechanization-equipment areas.

Suggested Teaching Strategy

Utilize SBA transparency No. 2 to lead off this discussion. Tables 2, 2.1, 3 and 9 of the Small Business Management Analysis, along with Appendices A and B should be utilized for this key question. The Dun and Bradstreet Cost of Doing Business Ratios publications will be helpful aids in this presentation. For individuals involved in equipment replacement, have the SBA Equipment Replacement Decision, Management Aids for Small Manufacturers No. 212, available.

KEY QUESTION 4. How can you analyze labor costs?

The business operator can find labor cost data, calculated or allocated, on SBM Tables 1, 2, 2.1, 3, 7 and 9. An historical basis will be established with future analyses, but some comparisons can be made at this time with standard industry averages.

Appendix C, Accounting For Labor, illustrates the various reasons why the business operator needs to account for labor costs. It may be of value in arriving at accurate labor cost allocations to the departments.

It is obvious that labor must return more to the business than it costs if a profit is to be realized. Labor is a major expense item in most business operations and should warrant the special attention of the business operator. Appendices A and B can aid the operator in analyzing labor costs.

Suggested Teaching Strategy

This key question can be dealt with in a manner similar to question 3. Labor data, including ratios and measurements should be identified on all of the tables indicated. Appendices A, B and C should be utilized, with C serving the role of stimulating future allocation and recordkeeping efforts. Discussion may also lead to practical aspects like sending hourly labor home when work is light. Utilize SBA transparency No. 169 if the discussion covers calculating direct labor costs.

KEY QUESTION 5. How can you analyze building costs?

"One of the major items of expense in retailing is rent. Rent may be thought of as a percentage of the sales produced in the space occupied. Whether or not that space is owned by the merchant or leased, the cost of occupancy must be paid out of gross margins resulting from sales." (SBA. Litzberg, p. 8)

Building costs are relatively fixed. The business operator must try to get more out of this cost because he cannot reduce it. Total building costs are computed on Table 3 as shown in Appendix A.

In an effort to utilize this cost more efficiently the business operator might study the specific occupancy pattern of the business and its location.

Suggested Teaching Strategy

Spend a brief time with this question. Utilize Appendix A in showing the building cost allocation.

Part IV. Summary

A. Monthly expense budgeting can provide a continuous control monitor to aid in maximizing profit.

B. The major expense items of mechanization, labor, equipment and buildings can be analyzed with complete and correct data from the business analysis.

C. The lowest investment in the major expense items that will make the best use of all resources will result in the greatest income.

Part V. At-The-Business Instruction

Generally review the mechanization, equipment, labor and building costs for the business. Assist the business family with determining costs of various alternatives to capital investments in machinery, equipment and buildings. If business and family goals include investment in these items, assist in preliminary plans for acquisition. Discuss the total labor situation in the business.

Part VI. Resources

Chalkboard, Chalk and Eraser
Overhead Projector
SBA Transparencies 2 and 169
Handouts of Appendices A, B and C

Part VII. References

A. References Cited

1. Broom, H.N. and Justin G. Longenecker, Small Business Management, 3rd Edition, South-Western Publishing Co., Cincinnati.

2. Small Business Administration, Analyze Your Records to Reduce Costs, by Alfred B. Abraham, Small Marketers Aids No. 130, Washington, D.C., U.S. Government Printing Office, 1967.

3. Small Business Administration, Small Marketers Aids Annual No. 3, Edited by Robert A. Litzberg, Washington, D.C., U.S. Government Printing Office, 1961.

4. Small Business Administration, Technical Aids for Small Business Annual No. 2, Edited by J. Wade Rice, Washington, D.C., U.S. Government Printing Office, 1958.

B. Other References

1. Dun and Bradstreet, Inc., Business Economics Department, Cost of Doing Business Ratios - Corporations, Dun and Bradstreet, Inc., New York, 1973.

2. Dun and Bradstreet, Inc., Business Economics Department, Cost of Doing Business Ratios - Partnerships and Proprietorships, Dun and Bradstreet, Inc., New York, 1973.

3. Small Business Administration, Cost Accounting for Small Manufacturers, by R. Lee Brummert, Small Business Management Series No. 9, Washington, D.C., U.S. Government Printing Office, 1953.

4. Small Business Administration, The Equipment Replacement Decision, by Raymond R. Mayer, Management Aids for Small Manufacturers No. 212, Washington, D.C., U.S. Government Printing Office, 1970.

5. Small Business Administration, Managing for Profits, by Harvey C. Krentzman, Washington, D.C., U.S. Government Printing Office, 1968.

6. Small Business Administration, Pointers on Using Temporary-Help Services, by William Olsten, Management Aids for Small Manufacturers No. 205, Washington, D.C., U.S. Government Printing Office, 1970.

7. SBA Transparencies Nos. 2 and 169

Part VIII. Appendices

A. Calculation of Selected Expense Items From Table 3 of the Small Business Management Analysis

B. Monthly Expense Budget (Estimated and Actual)

C. Accounting For Labor

Appendix A

Calculation of Selected Expense Items From Table 3 of the Small Business Management Analysis

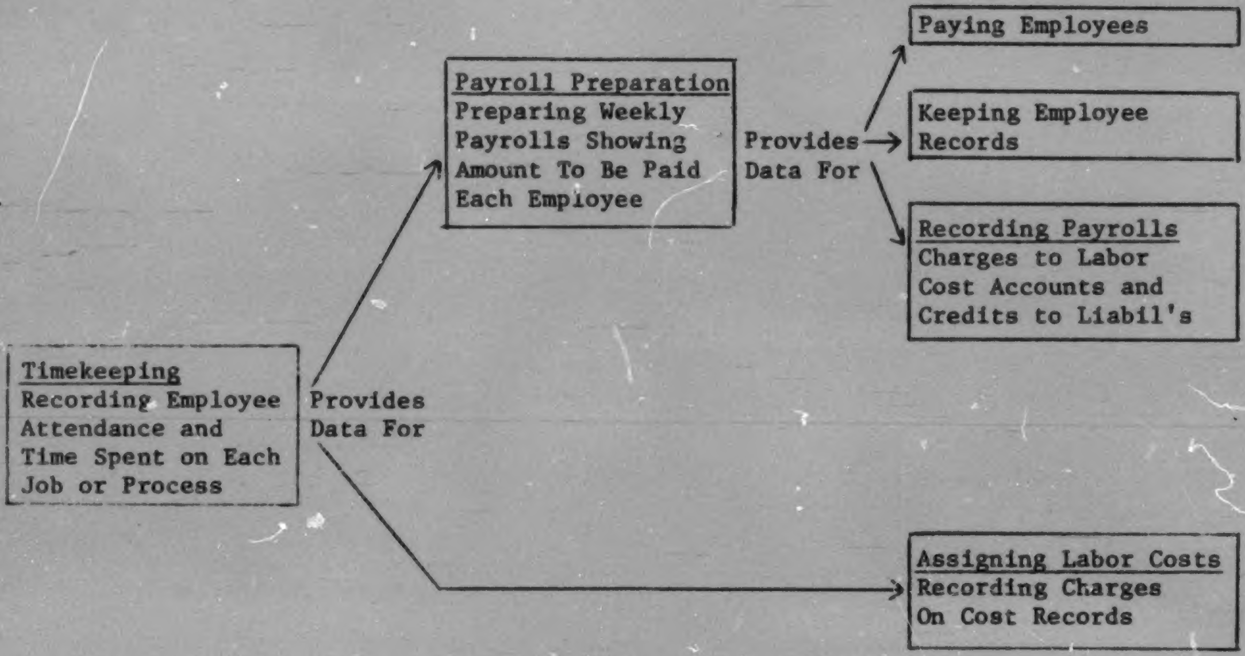
LINE	ITEM		CALCULATION
181	Land	=	Sum of (Repairs & Maint.-Land + Cost of Land Sold) minus (Sales of Land))
182	Buildings	=	Sum of (Repairs & Maint.-Bldgs + Depreciation + Cost of Buildings Sold) minus (Sales of Buildings)
184	Equipment & Fixtures	=	Sum of (Repairs & Maint.-Eq. + Fix. + Depreciation + Cost of Eq. & Fix. Sold) minus (Sales of Eq. + Fix.)
186	Vehicles	=	Sum of (Repairs & Maint.-Vehicles + Gas, Oil & Grease + Depreciation + Cost of Vehicles Sold) minus (Sales of Vehicles)
605	Labor Costs	=	Sum of (Unpaid Family Labor + Paid Family Labor + Salaries & Wages + Payroll Taxes + Employee Benefits)
612	Advertising	=	Advertising
613	Utilities	=	Sum of (Heat + Electricity + Water + Telephone)
617	Insurance	=	Insurance
624	Legal & Accounting	=	Legal & Accounting
625	Taxes & Licenses	=	(Property Taxes + Licenses)
626	Contributions & Donations	=	Contributions & Donations
627	Shop & Office Expense	=	Shop Expense + Office Expense
629	Entertainment, Dues & Travel	=	Sum of (Entertainment + Dues & Subscriptions + Travel & Conventions)
638	Bad Debts	=	Bad Debts
639	Rent	=	Rent
641	Misc. & Other Exp.	=	Sum of (Policy Adjustment + Cash Short/Long + Misc. Expenses + Open Expense Categories)
642	Delivery & Postage	=	Delivery Expense + Postage
644	Selling Expense	=	Selling Expense
646	Trash & Breakage	=	Sum of (Trash & Garbage Removal + Breakage & Spoilage)
648	Collection & Bank Charges	=	Collection Expense + Bank Charges
650	Supplies	=	Supplies

Appendix B

Monthly Expense Budget (Estimated and Actual)

	January			February			March		
	Est.	Act.	Over/ Under	Est.	Act.	Over/ Under	Est.	Act.	Over/ Under
PERSONNEL									
SALARIES & WAGES									
PAYR. TAX(FICA/UNEM)									
EMPL/EMPLE BEN.(Pens. Prof. Shar., etc.)									
OPERATING									
ADVERTISING									
HEAT									
ELECTRICITY									
WATER									
TELEPHONE									
INSUR. (Prop., Liab. Work. Comp., etc.)									
INTEREST EXP.									
REP. & M.-BLDGS & GR.									
REP. & M.-EQ. & FIX.									
REP. & M.-VEHICLES									
GAS & OIL									
LEGAL & ACC'T.									
PROP. TAXES									
CHAR. BUS. CONT.									
SHOP EXPENSE									
OFFICE EXPENSE									
ENTERT. & PROM.									
DUES & SUBSC.									
LICENSES									
TRAVEL & CONV.									
DEPREC. EXPENSE									
BAD DEBTS									
RENT EXPENSE									
CASH SHORT/LONG									
MISC. EXPENSE									
DELIVERY EXP.									
POSTAGE									
SELLING EXP.									
BREAK., SPOIL. ETC.									

Appendix C


Timekeeping
Recording Employee Attendance and Time Spent on Each Job or Process
Provides Data For
Payroll Preparation
Preparing Weekly Payrolls Showing Amount To Be Paid Each Employee
Provides Data For
Paying Employees
Keeping Employee Records
Recording Payrolls
Charges to Labor Cost Accounts and Credits to Liabil's
Assigning Labor Costs
Recording Charges On Cost Records

Accounting For Labor

Small Business Administration, Cost Accounting for Small Manufacturers, by R. Lee Brummert, Small Business Management Series No. 9, Washington, D.C., U.S. Government Printing Office, 1953, p. 45

Year II--Unit 8

ANALYZING MAJOR DEPARTMENTAL EFFICIENCIES

Part I. Student Objectives

A. Utilizing the business analysis, each business family will be able to calculate the relative contribution of each department to the total margin of the business with 100% accuracy.

B. Utilizing the business analysis with its departmental statements and the "Table 9 Departmental Comparisons," the business family will be able to identify the line item allocation of expenses between departments.

C. Utilizing the business analysis with its departmental statements and the "Table 9 Departmental Comparisons," the business family will be able to make a departmental comparison of supplementary management data.

Part II. Transition of Units

The previous unit dealt with the costs of mechanization, labor, equipment and buildings. Monthly and annual analyses, including an operational budget, were suggested as methods of analyzing cost data.

This unit will look at efficiencies within each department of the business. The methods used to allocate income and expenses to each department will again be looked at for accuracy and appropriateness.

The following unit will provide a means of looking at several service categories found in the business world. Service departments will be considered as separate units and as they complement production departments and the total business operation.

Part III. Lesson

Attention Focuser

Place a pile of 100 pennies on the table in full view of the entire class. Separate out a number of pennies equal to the cost of goods sold percentage. Continue to push aside other pennies equal to the other costs of doing business. When completed, you should have left a very small pile of pennies illustrating the percent of profit from each dollar. This should illustrate that even the small items within each department can cut into the percent of profit.

KEY QUESTION 1. How is the departmental analysis related to the total business analysis?

Table 9 serves the function of a departmental income and expense statement. The total of all Table 9 margins is equal to the gross profit of the business shown on Table 2.1. The total of all Table 9 Total Expenses & Deductions is equal to the total expenses and deductions of the business on Table 2.1.

Supplementary management information appears on Table 9 and may be compared with the whole business on Table 7.

Suggested Teaching Strategy

Have each business family add together all Table 9, Line 599 Gross Profits to see that they equal the Table 2.1, Line 599 Gross Profit. Have them calculate the percentage contribution to gross profit from each department. Utilize the blank Table 9 from the appendix to illustrate the location of the items discussed in this unit.

KEY QUESTION 2. What questions can an individual departmental analysis answer?

"Even though your overall operations may be profitable, you may find, by keeping departmental records, that one department is producing most of the profits while others are barely breaking even or perhaps even losing money." (Ragan, p. 54) Departmental contributions to gross profit as calculated in Key Question 1 should show how each department compares with the other departments.

Many of the trade associations and governmental reporting services report financial statistics on a departmental basis. If the business can be treated as a single department, this comparison is relatively simple. When more than one department exists within the business, care should be taken to assign expenses accurately. It would not be correct to allocate expenses only to those departments where expenses can easily be assigned.

Specific comparisons between departments can be made for Table 9:

1. Total sales (L475)
2. Gross margin (L599)
3. Total Expenses & Deductions (L698)
4. Net Operating Profit (L699)

Suggested Teaching Strategy

Have each business family complete the "Table 9 Departmental Comparisons" in the appendix. This will allow a comparison of income and expenses by item among departments. In studying the comparisons, scrutinize the expense allocations in an effort to determine their accuracy.

KEY QUESTION 3. What can be learned from the supplemental management information on Table 9?

Total hours of labor required and total investment required are obtained by allocation based on the judgment of the business operator. The whole business figures are on Table 7, Lines D and B. Line D must be multiplied by 2000 to obtain total hours of labor in the business.

Net profit to net sales can also be found for the whole business on Line R of Table 7. This ratio is a relatively universal calculation and may be found in most standard reporting services for comparison purposes.

Departmental Profit per worker unit, Line F, per $1000 invested, Line C and per $100 total costs, Line H, have no other basis for comparison except by department. Generally they show the efficiency of labor, return on investment and control of expenses among the departments.

Suggested Teaching Strategy

Have each business family fill in the supplementary management information on "Table 9 Departmental Comparisons" in the appendix. Utilizing the Small Business Analysis Documentation, illustrate how each of the ratios or measures was calculated. As each item of management information is discussed, identify possible sources of inaccuracy due to inappropriate allocation.

Part IV. Summary

A. The departmental analysis serves as a departmental income and expense statement.

B. The departmental analysis allows for line item comparisons of expense items between departments, assuming allocation of these items is correct.

C. Supplemental management information uses the department as the base for calculating efficiency and return over cost data.

Part V. At-The-Business Instruction

Review the business departmental analysis with the business family. Current efforts to departmentalize expenses should be related to the goals of the business family to better understand the business.

The business family should be encouraged to study the departments carefully as a prelude to an overall business evaluation, the topic of the following unit.

Efforts to analyze and evaluate departments on a quarterly or monthly basis should be encouraged. Assist the business family in their efforts to make the allocation of income and expenses a quick and efficient task.

Part VI. Resources

Chalkboard, Chalk and Eraser
Overhead Projector
Transparency of Appendix A
Transparency and Handouts of Appendix B

Part VII. References

A. References Cited

SBA, Small Business Management Series No. 32, Financial Recordkeeping for Small Stores, by Robert C. Ragan, Washington, D.C., U.S. Government Printing Office, 1966.

B. Other References

SBA Small Marketers Aids No. 130, Analyze Your Records to Reduce Costs, by Alfred B. Abraham, Washington, D.C., U.S. Government Printing Office, April, 1974 Reprint.

Part VIII. Appendices

A. Table 9, Departmental Income and Expense Statement

B. Table 9, Departmental Comparisons

DATE PROCESSED____________________

BUSINESS NAME ____________________

DEPARTMENT ____________________

Appendix A

TABLE 9.__ DEPARTMENTAL INCOME AND EXPENSE STATEMENT

CODE NO. ________________

400.	INCOME		
421.	MERCHANDISE SALES		________
441.	SECONDARY SALES		________
460.	CUSTOMER LABOR		________
461.	OUTSIDE LABOR		________
462.	INTERNAL LABOR		________
463.	WARRANTY LABOR		________
472.	INTERNAL PARTS		________
473.	WARRANTY PARTS		________
475.	NET SALES OF GOODS & SERVICES		________
500.	COST OF GOODS OR SERVICES SOLD		
121.	BEGINNING INVENTORY	________	
521.	MDSE. PURCHASED	________	
541.	SECONDARY PURCHASES	________	
550.	FREIGHT-IN COSTS	________	
561.	SUBLET LABOR	________	
570.	COST OF LABOR	________	
A.	GOODS OR SERVICES AVAILABLE	________	
121.	ENDING INVENTORY	________	
598.	COST OF GOODS OR SERVICES SOLD		________
599.	GROSS PROFIT FROM SALES		________
600.	EXPENSES		
609.	PAID FAMILY LABOR	________	
610.	SALARIES & WAGES	________	
611.	PAYROLL TAXES	________	
612.	ADVERTISING	________	
613.	HEAT	________	
614.	ELECTRICITY	________	
615.	WATER	________	
616.	TELEPHONE	________	
617.	INSURANCE	________	
618.	INTEREST	________	
619.	REPAIR & MAINT. - LAND	________	
620.	REPAIR & MAINT. - BUILDINGS	________	
621.	REPAIR & MAINT. - EQUIPMENT & FIX.	________	
622.	REPAIR & MAINT. - VEHICLES	________	
623.	GAS, OIL & GREASE	________	
624.	LEGAL & ACCOUNTING	________	
625.	PROPERTY TAXES	________	
626.	CONTRIBUTIONS & DONATIONS	________	
627.	SHOP EXPENSE	________	
628.	OFFICE EXPENSE	________	
629.	ENTERTAINMENT & PROMOTION	________	
630.	DUES & SUBCRIPTIONS	________	
631.	LICENSES	________	

2.130

DATE PROCESSED ____________________

BUSINESS NAME ________________________________

DEPARTMENT ________________________________

TABLE 9.__ CONTINUED

CODE NO. __________________________

---

632. TRAVEL & CONVENTION ____________
633. POLICY ADJUSTMENT ____________
635. DEPRECIATION - BUILDINGS ____________
636. DEPRECIATION - EQUIP. & FIX. ____________
637. DEPRECIATION - VEHICLES ____________
634. DEPRECIATION TOTAL ____________
638. BAD DEBTS ____________
639. RENT ____________
640. CASH SHORT/LONG ____________
641. MISCELLANEOUS ____________
642. DELIVERY ____________
643. POSTAGE ____________
644. SELLING EXPENSE ____________
645. EMPLOYEE BENEFITS ____________
646. TRASH & GARBAGE REMOVAL ____________
647. BREAKAGE & SPOILAGE ____________
648. COLLECTION EXPENSE ____________
649. BANK CHARGES ____________
650. SUPPLIES ____________
651. OPEN ACCOUNT ____________
652. OPEN ACCOUNT ____________
653. OPEN ACCOUNT ____________
654. OPEN ACCOUNT ____________
698. TOTAL EXPENSES & DEDUCTIONS ____________
699. NET OPERATING PROFIT ____________

B. OTHER BUSINESS INCOME

480. INTEREST INCOME ____________
481. RENTAL INCOME ____________
482. ROYALTIES INCOME ____________
490. PURCHASE DISCOUNTS ____________
491. VOLUME DISCOUNTS ____________
492. OTHER ____________
397. NET PROFIT ____________

C. SUPPLEMENTARY MANAGEMENT INFORMATION

D. TOTAL HOURS OF LABOR REQUIRED ____________
E. TOTAL INVESTMENT REQUIRED ____________
F. DEPARTMENTAL PROFIT PER WORKER UNIT ____________
G. DEPARTMENTAL PROFIT PER $1000 INVESTED ____________
H. DEPARTMENTAL PROFIT PER $100 OF TOTAL COST ____________
I. RATIO OF NET PROFIT TO NET SALES ____________

Appendix B

TABLE 9 DEPARTMENTAL COMPARISONS

		DEPT. 1	DEPT. 2	DEPT. 3	DEPT. 4	BUSINESS TOTAL
400	INCOME					
421	MERCHANDISE SALES					
441	SECONDARY SALES					
460	CUSTOMER LABOR					
461	OUTSIDE LABOR					
462	INTERNAL LABOR					
463	WARRANTY LABOR					
472	INTERNAL PARTS					
473	WARRANTY PARTS					
475	NET SALES-GDS. & SERV.					
500	COST OF GDS.-SERV. SOLD					
121	BEGINNING INVENTORY					
521	MERCHANDISE PURCHASED					
541	SECONDARY PURCHASES					
550	FREIGHT-IN COSTS					
561	SUBLET LABOR					
570	COST OF LABOR					
A	GDS. OR SERV. AVAIL.					
121	ENDING INVENTORY					
598	COST OF GDS-SERV. SOLD					
599	GR. PROFIT FROM SALES					
600	EXPENSES					
609	PD. FAMILY LABOR					
610	SAL. & WAGES					
611	PAYROLL TAXES					
612	ADVERTISING					
613	HEAT					
614	ELECTRICITY					
615	WATER					
616	TELEPHONE					
617	INSURANCE					
618	INTEREST					
619	REP. & M.-LAND					
620	REP. & M.-BUILDINGS					
621	REP. & M.-EQUIP. & FIX.					
622	REP. & M.-VEHICLES					
623	GAS, OIL & GREASE					
624	LEGAL & ACCOUNTING					
625	PROPERTY TAXES					
626	CONT. & DONATIONS					
627	SHOP EXPENSE					
628	OFFICE EXPENSE					
629	ENT. & PROMOTION					
630	DUES & SUBSCRIP.					
631	LICENSES					

Appendix B (Cont.)

		DEPT. 1	DEPT. 2	DEPT. 3	DEPT. 4	BUSINESS TOTAL
632	TRAV. & CONVENTION					
633	POLICY ADJUSTMENT					
635	DEPREC.-BUILDINGS					
636	DEPREC.-EQUIP. & FIX.					
637	DEPREC.-VEHICLES					
634	DEPREC. TOTAL					
638	BAD DEBTS					
639	RENT					
640	CASH SH./LONG					
641	MISCELLANEOUS					
642	DELIVERY					
643	POSTAGE					
644	SELLING EXPENSE					
645	EMPLOYEE BEN.					
646	TRASH & GARB. REM.					
647	BREAK. & SPOILAGE					
648	COLLECTION EXP.					
649	BANK CHARGES					
650	SUPPLIES					
651	OPEN ACCT.					
652	OPEN ACCT.					
653	OPEN ACCT.					
654	OPEN ACCT.					
698	TOTAL EXP. & DEDUCTIONS					
699	NET OPERATING PROFIT					
B	OTHER BUS. INCOME					
480	INTEREST INCOME					
481	RENTAL INCOME					
482	ROYALTIES INCOME					
490	PURCHASE DISCOUNTS					
491	VOLUME DISCOUNTS					
492	OTHER					
397	NET PROFIT					
C	SUP. MANAGEMENT INFO.					
D	TOTAL HRS. LABOR REQ.					
E	TOTAL INVEST. REQ.					
F	DEPT. PROFIT/WORKER UNIT					
G	DEPT. PROF./$1000 INVEST.					
H	DEPT. PROF/$100 TOT. COST					
I	RATIO NET PROF-NET SALES					

Year II--Unit 9

ANALYZING THE SERVICE DEPARTMENT

Part I. Student Objectives

A. Given examples of service businesses and departments and explanations of how they operate, the student will be able to verbally explain the reasons why each "service category" exists in the business world.

B. Utilizing a Table 9 service department analysis or a modified cost checklist, the student will be able to determine an accurate cost of operation for a selected service department.

C. Given a sample comparison chart and an opportunity to discuss the costs of alternative methods of offering service, the student will be able to consistently make accurate decisions relative to the operation of the service department.

Part II. Transition of Units

The previous unit looked at efficiencies within each department of the business. The methods used to allocate income and expenses to each department were studied for accuracy and appropriateness.

This unit will provide a means of looking at several service categories found in the business world. Service departments will be considered as separate units and as they complement production departments and the total business operation.

The following unit will serve as a guideline for evaluating the whole business in an effort to identify strong and weak points. The use of the business analysis to strengthen strong points and eliminate weak points will be stressed.

Part III. Lesson

Attention Focuser

Place two gift-wrapped packages in front of the class. One should be very well wrapped with ribbon and bow while the other should be relatively plain. Ask the class to identify which package might have been done as a customer service at no charge and which had been done at a charge to the customer. Ask which package creates a more favorable image for the business.

Use this example to illustrate the complexity of the "service area" in a business. It might be pointed out that while the customer receives free gift wrapping in some stores, that cost is probably passed on in the sales price.

KEY QUESTION 1. What are the service categories of business operations and how do they operate?

Service Categories	Examples	Operation
1. Service Businesses	Barbershops, filling stations, banks, public accounting firms, warehouses.	Revenue producing. Fulfills a human service need but does not produce a product.
2. Internal Service Department	Personnel, factory management, building service, equipment maintenance.	Contributes to the business's output by providing services that facilitate the activities of the revenue producing departments, but is non-revenue producing.
3. Customer Service	Giftwrapping, delivery service, credit extension, music lessons from a music store.	Non-revenue producing services in a public relations/advertising capacity.*
4. Service Department	Hardware repair department, auto dealer's repair shop, restaurant or food service of a motel or hotel.	Revenue producing. May or may not be profitable in itself. Has complementary role within the total business.

* If revenue producing, refer to Category 4, "Service Department."

Suggested Teaching Strategy

Little has been written about the subject of service departments to help provide reference material for this unit. The text, Small Business Management, by Broom and Longenecker treats the subject lightly in a chapter entitled "Service Firm Management."

Write the following headings on the chalkboard: "Service Categories," "Examples" and "Operation." List each category and solicite responses from the students to fill in appropriate examples and operation. It is important for the student to understand that this unit will deal primarily with Categories 3, "Customer Service" and 4, "Service Department."

KEY QUESTION 2. What are some of the reasons for including a customer service or service department in your business operation?

1. Complementary effect:
   a. Customer relations--brings people into the business.
   b. Warranty service--to back up what you sell.

2. Revenue producing:
   a. Profitable as a separate department.
   b. "Necessary expense" for the benefit of the total business; must consider pricing policy to include service costs.

3. Labor-absorbing:
   a. Owner's time and talents.
   b. Employees' time and talents.

4. External factors:
    a. Competition. Does a similar business claim to offer a service?
    b. Facilities. Do they lend themselves to the inclusion of the service?
    c. Human resources. Are they available to do an adequate or superior job with the service?
    d. Capital requirements. What amount is required and what is available or could be secured?

Suggested Teaching Strategy

Suggest the main points to the class and write them on the chalkboard. Have the class try to give examples of these main points. Do not spend too much time on the revenue producing (or expense) aspect, as this will be covered more extensively in the next question.

The class may suggest additional main points or other ways of looking at the topic. The discussion in this question is important in stimulating the students' thinking about all aspects of services.

KEY QUESTION 3. How can you determine the total cost of operating a service department?

1. Direct labor costs: wages and fringe benefits
2. Direct materials or operations costs
3. Indirect overhead costs

Suggested Teaching Strategy

Total costs of operating a service department can be determined through a Table 9 departmental analysis. Utilize a Table 9 analysis if the student has allocated all costs pertaining to the service department. This will be a good opportunity to analyze how costs were allocated and whether or not the allocation is reasonable. Those who have not analyzed their service department may gain insight into the value of this technique, thus encouraging future participation. Use transparency # 170.

The "Cost Checklist For a Truck" found in the appendix can be utilized for determining costs of a delivery service and can be adapted to fit most other service departments.

Costs should be reasonably accurate if the service department is operational. If the student is attempting to look at costs from the point of view of establishing a service department, the costs will be in an estimated form.

KEY QUESTION 4. How can you compare the various methods of providing a service department?

The "Sample Comparison Chart" in the appendix illustrates one way of comparing costs. It can be adapted to fit other types of service departments.

In addition to determining costs, refer back to Key Question 2 for other ways of comparison. Complementary effects, value added features and other aspects covered in that question give a clue to an organized method of comparison.

Suggested Teaching Strategy

Distribute the "Sample Comparison Chart" or a modified chart to fit your students' needs. Discuss the value of comparing costs as a means of determining the type of service department to operate.

Bring into the discussion the other reasons for having a service department, asking the students to comment on how well these reasons work out with the different alternatives under discussion.

This topic will not be an easy unit to present. There are probably no clear cut answers other than costs which the student may use as a basis for analyzing the service department. It is hoped that a complete discussion of the subject will bring the service department into clearer focus with respect to its relationship to the total business operation.

Part IV. Summary

A. Service functions in a business operation can play an important role in the profitability of the total operation and should be analyzed as a separate department.

B. Alternative methods of providing service should be investigated, giving consideration to cost of operation and the many reasons for including service in a total operation.

Part V. At-The-Business Instruction

The instructor should assist the business operator in a complete analysis of the service functions of the business. Encouragement may be needed to get the business operator to work for a more complete breakdown of costs and benefits in the service area.

Additional instructor assistance may be appropriate in the areas of the service department's physical layout and operation.

Part VI. Resources

Chalkboard, Chalk and Eraser
Overhead Projector
Transparencies and Handouts of Appendices; SBA Transparency 170

Part VII. References

1. Broom, H.N. and Justin G. Longenecker, Small Business Management, 3rd edition, South-Western Publishing Company, Cincinnati, 1971.

2. Small Business Administration, Can You Afford Delivery Service? by Gerald B. Halverson, Small Marketers Aids No. 133, Washington, D.C., U.S. Government Printing Office, May 1968.

3. Small Business Administration, Pricing In A Services Business, Management Development Program Topic 19, Washington, D.C., U.S. Government Printing Office, 1968.

Part VIII. Appendices

A. Cost Checklist for a Truck

B. Sample Comparison Chart

Appendix A

COST CHECKLIST FOR A TRUCK*

Driver

The following items must be considered when determining the cost of a driver for a delivery truck:

Wages (including overtime) $________
Holidays (paid, but not worked) ________
Vacation (paid, but not worked) ________
Sick Days (paid, but not worked), if applicable ________
Social Security contribution ________
Unemployment compensation contribution ________
Replacement for driver during vacations, illness or injury ________
Workmen's Compensation ________
Union health and welfare contribution, if applicable ________
Union retirement contribution, if applicable ________
Total $________

Vehicle

The following items must be considered when determining the cost of owning and maintaining the truck:

Original cost (interest on loan, if borrowed) $________
Licenses, title, fees and permits (include st. & fed. use) ________
Taxes, where applicable ________
Gasoline, oil and grease ________
Insurance (liability, collision, fire & theft, and legal actions not indemnified by insurance) ________
Depreciation ________
Normal maintenance and tuneup ________
Body upkeep and repair (periodic painting & retouching) ________
Parts (periodic replacement of tires, sparkplugs, filters, and wiper blades) ________
Rental of replacement vehicle during repair & service ________
Period washing ________
Antifreeze and other seasonal maintenance ________
Traffic and parking fines ________
Total $________

Administrative Cost

In addition, if they are substantial, the total cost for a truck should include the administrative expenses connected with planning and supervising, figuring wages, and negotiating insurance, service, and labor contracts.

TOTAL COST

Total for driver $________
Total for vehicle ________
Administrative (if substantial) ________
Grand Total $________

---

* Small Business Administration, Can Your Afford Delivery Service? by Gerald B. Halverson, Small Marketers Aids No. 133, Washington, D.C., U.S. Government Printing Office, May 1968, p. 5

Appendix B

SAMPLE COMPARISON CHART[1]

	Delivery Method				
Cost per Month for:	Bicycle	Common Carrier	U.S. Post Office	Own Automobile	Own Truck
Driver*		None	None		
Vehicle*		None	None		
Packing					
Postage					
Administration*	None	None		None	None
Breakage and Claims					
Total					

*See "Cost Checklist for a Truck", Appendix A

[1] Small Business Administration, Can You Afford Delivery Service? by Gerald B. Halverson, Small Marketers Aids No. 133, Washington, D.C., U.S. Government Printing Office, May 1968, p. 7.

Unit II--Unit 10

EVALUATION OF THE SMALL BUSINESS

Part I. Student Objectives

A. Given a list of people and organizations competent in small business management, the student will be able to identify several important sources of assistance for evaluating the business.

B. Given an "Evaluation of the Business Worksheet" and the opportunity to complete it, the student will be able to identify the strong and weak points of a business.

C. Given the opportunity to participate in a discussion concerning control of the small business, the student will summarize the reasons why a business operator does have control over the future of the business.

Part II. Transition of Units

The previous unit looked at the several service categories found in the business world. Service departments were looked at as separate units and as they complement production departments.

This unit will serve as a guideline for evaluating the whole business in an effort to identify strong and weak points. The use of the business analysis to strengthen strong points and eliminate weak points will be stressed.

The following unit will cover income tax planning and management. It will supplement the information given in Year II--Unit 1.

Part III. Lesson

Attention Focuser

Utilize SBA Transparency No. 61, "Breakfast Food (Front Door Key)," to illustrate the complexity of operating a business. To make a sound decision requires complete understanding of the operation and the ability to control it. In the evaluation procedure, one attempts to learn how all the parts of a business are interrelated and what effect a change in one part of the business will have throughout the total business. A brief explanation of the evaluation process using this transparency to illustrate the dilemma a business operator might face should set the stage for the lesson.

KEY QUESTION 1. What are the major outside sources of information that could be helpful in the evaluation process?

1. "Major Sources of Information," SBA Transparency No. 92

   a. Publications
   b. Business groups
   c. Educational institutions
   d. Governmental agencies
   e. People

2. "Helpful People," SBA Transparency No. 91

   a. Employees
   b. Customers
   c. Suppliers
   c. Other businessmen

3. "Helpful Professional Men," SBA Transparency No. 90

   a. Bankers
   b. Accountants
   c. Lawyers
   c. Management consultants

Suggested Teaching Strategy

Utilize the SBA transparencies as indicated above to help illustrate that there are many sources of aid for the business family. Ask the class for examples of how they have been helped in the past by the sources listed. While most of the examples may be good, one might expect occasional negative comments because of bad experiences. This will lend a note of reality and should be discussed with candor.

KEY QUESTION 2. Where are the strengths and weaknesses of your business?

Small business families who have had an analysis of their business need encouragement to study and to make adjustments in their business as suggested by the report. They must assess what is strong and what is weak about their business -- what they have done to take advantage of it, what adjustments or investments have been made that were contrary to analysis indications, and what they could do to take advantage of this knowledge. A business analysis report that does not lead to some action on the part of the business family is not of great value.

Suggested Teaching Strategy

The "Evaluation of the Business Worksheet " from the appendices should be filled in by the business family. It would be helpful for the instructor to indicate to the family where to look in the business analysis for ideas on the various questions. Direct answers to all of the questions will not be found in the business analysis but general weaknesses within the report may suggest need for improvement. In most instances the business family will need to decide for themselves whether the size of their business is adequate and whether they are timely in their purchases. This will be a worthwhile and thought-provoking activity.

KEY QUESTION 3. Can you control the future of your business?

It is not uncommon for the small business operator to think that there is really nothing he can do to shape the future. However, this is not true.

> "Fact is, you can do something about controlling your business' future. Yes -- controlling its future.

> "Facing the Future with Facts. Obviously, haphazard methods and wishful thinking won't do the trick. But some constructive steps are possible -- even for very small firms. Crystal ball gazing is no way to control your business' future. Instead, you need facts..." (SBA, Small Marketers Aids--Annual No. 5 by Goodpasture, p. 17)
>
> "Facts must be analyzed to determine their true meaning. Business is so complex that the real impact as it affects your operation can seldom be determined just by looking at surface conditions. You will want to look for cause and effect relationships...
>
> "Sometimes the decision emerges as you analyze the facts to determine their meaning for your business. Often, though, two or more possible decisions may present themselves. Here you pick the course of action that will bring you to your goal with the greatest economy of effort and cost." (SBA, Management Aids for Small Manufacturers--Annual No. 9 by Goodpasture, p. 12)

An important step in the evaluation process is an analysis of organizational structure and performance. Two indications of organizational inadequacy point up the importance of this factor.

> "One evidence of poor organization is failure to take action when action is needed. Such failure to act constitutes a breach of effective performance, but it may arise from poor organizational planning and failure to define an individual's responsibility and authority. A second evidence of inadequate organization is delay in necessary action; this may characterize the entire organization..." (Broom and Longenecker, pp. 247-248)

Suggested Teaching Strategy

Utilize the quotations in this key question to help generate discussion around the aspect of "business control".

SBA Management Aids for Small Manufacturers No. 46, How To Analyze Your Own Business, can be used with modification or deletion to aid the business family in beginning the process of evaluation. However, it should be used only as a supplement to the facts obtained from the business analysis.

Part IV. Summary

A. There are many people and organizations capable of helping in the evaluation process.

B. Many of the strengths and weaknesses of a business can be discovered by studying the business analysis.

C. The business family can control the future of their business.

Part V. At-The-Business Instruction

Review the "Evaluation of the Business Worksheet" with each business family. Assist them in completing it if necessary. Compare this worksheet with their statement of goals for the business and family.

Part VI. Resources

Chalkboard, Chalk and Eraser
Overhead Projector
SBA Transparencies Nos. 90, 91, 92
Handouts and Transparency of Appendix A

Part VII. References

A. References Cited

1. Broom, H.N. and Justin G. Longenecker, Small Business Management, Third Edition, Cincinnati, South-Western Publishing Company, 1971

2. Small Business Administration, Management Aids for Small Manufacturers--Annual No. 9, edited by Bruce Goodpasture, Washington, D.C., U.S. Government Printing Office, 1963.

3. Small Business Administration, Small Marketers Aids--Annual No. 5, edited by Bruce Goodpasture, Washington, D.C., U.S. Government Printing Office, 1963.

B. Other References

1. Small Business Administration, How To Analyze Your Own Business, by Howard E. Sommer, Management Aids for Small Manufacturers No. 46, Washington, D.C., U.S. Government Printing Office, November, 1971.

2. SBA Transparencies Nos. 90,91, and 92

Part VIII. Appendices

A. "Evaluation of the Business" Worksheet

Appendix A

Name ______________________________
Date ______________________________

"Evaluation of the Business" Worksheet

1. What are the strong points of our business?

   a. What have we done to take advantage of these strong points?

   b. What can we do?

2. What are the weak points of our business?

   a. What have we done to strengthen or eliminate the weak points?

   b. What can we do?

3. EVALUATION OF OUR BUSINESS

	Weak	Satisfactory	Very Good
Size of business			
Business organization			
Recordkeeping system			
Budgeting			
Inventory system			
Cash flow			
Merchandising			
Advertising			
Timeliness			
Labor efficiency			
Mechanization costs			
Departmentalization			
Household spending			
Statement of goals			

4. Changes in operations, departments, building or equipment additions that your analysis report omitted or indicated should not be done:

5. Unusual circumstances in last year's analysis that would tend to distort data from a true average picture of business or family spending (inventory errors, health problems, depressed economy, etc.):

Year II--Unit 11

INCOME TAX PLANNING AND MANAGEMENT

Part I. Student Objectives

A. Given examples of partnership and corporate income tax forms, and a review of the single proprietorship tax form, the student will be able to compare and contrast the three forms of business organization with respect to tax liability.

B. Given examples of income averaging, net operating loss carry-back/carry-forward, investment credit, and other tax management techniques identified by the instructor, the student will be able to describe the effect each method will have on tax liability.

Part II. Transition of Units

The previous unit presented a guideline for evaluating the business in an effort to identify strong and weak points. It suggested that the small business family really does have control over the future of their business.

This unit will supplement Year II--Unit 1 through a coverage of income tax planning and management. It will cover items beyond the basic reporting forms.

The final unit of Year II will detail the closing procedure for the record system. It will include references to revised closing instructions.

Part III. Lesson

Attention Focuser

If you said you were going to do something about the large amount of taxes you paid this last year, but haven't, you are dreaming. Tax planning and management can only be accomplished through action. Using SBA transparency No. 110, "Your Form of Business Organization Can Affect Your Taxes," ask the class if they know what their taxes would be under the three forms of organization shown on the transparency.

KEY QUESTION 1. How are your tax rates affected by filing as a partnership or corporation as compared to the single proprietorship?

A. Single Proprietorship, Form 1040

B. Partnership, Form 1065

C. Corporation, Form 1120, 1120S (for corporations meeting certain IRS requirements who elect to have their income taxed directly to the shareholders, like a partnership)

Suggested Teaching Strategy

All completed forms for this unit may be found in the Year II--Unit 1 Appendix. Review Form 1040 and Schedule C calculations for the sample *business, then show how this business would be reported as a partnership, corporation or as a Subchapter S election. Be sure to point out that under the corporation form, the owner's draw (salary) is reported on the Form 1040 in lieu of the net operating profit of the business.*

KEY QUESTION 2. How does a business operator qualify for income averaging and how does it affect tax liability?

A. Only Form 1040 is averaged.

B. The current year's taxable income minus the sum of (previous four year's taxable income--adjusted x 30%) must be greater than $3,000.

C. Tax liability for those who qualify to file Form 1040 Schedule G will be reduced.

Suggested Teaching Strategy

Utilize the standard Form 1040 and Schedule G from Year II--Unit 1 to illustrate how one qualifies for income averaging and how it reduced the tax liability for the sample business. The instructor should read the instructions on Schedule G carefully and completely before presenting this key question.

KEY QUESTION 3. How is a net operating loss handled under the carry-back/carry-forward provisions of IRS?

A. "Net Operating Loss Computation," Form 3621 (Revised 5/73)

B. Internal Revenue Service, Department of the Treasury, Tax Guide for Small Business, Publication 334, Washington, D.C., U.S. Government Printing Office (Current Edition).

Suggested Teaching Strategy

The instructor should become familiar with the sample of loss carry-backs and carry-overs in the Tax Guide for Small Business. A blank copy of Form 3621, "Net Operating Loss Computation," (Revised 5/73) is included in the appendix. It is suggested that this IRS provision be discussed for a limited amount of time, as few class members may be affected.

KEY QUESTION 4. How does investment credit affect tax liability?

A. For 1975-76 purchases of qualifying capital assets, the business operator can deduct an amount equal to 10% of the cost of the asset from his federal tax liability. The 10% rate was legislated for 1975-76 while the rate prior to 1975 was 7%.

B. A qualifying asset which cost $10,000, with an estimated life of 7 or more years, will save the taxpayer $1,000 in federal tax.

Suggested Teaching Strategy

Investment credit is not a difficult topic, but the instructor should become familiar with a number of apects surrounding its availability, such as what property qualifies, how the years of life affect the amount of credit, carry-back and carry-forward of unused credit and investment credit recapture.

Utilize Form 3468, "Investment Credit," in Year II--Unit 1 to illustrate a simple application from the sample business.

KEY QUESTION 5. What other tax management techniques are available to the small business operator?

A. Estimation of income tax

B. Methods of valuing inventory

C. Control of income

D. Control of expenses

Suggested Teaching Strategy

Refer to the material in Year I--Unit 12 for a review of this topic. Many tax management aids are available to the instructor, including the SBA manual on Managing for Profits. The instructor may find that some class members are quite knowledgeable about tax management techniques and their participation in discussion should be encouraged. Resource experts may also be invited in.

Part IV. Summary

A. The form of business organization will have an effect on tax liability.

B. There are several techniques and IRS provisions available for reducing the tax liability.

Part V. At-The-Business Instruction

The instructor should assist the business family in completing an income tax estimate worksheet. The various alternatives for reducing the tax liability of the business family should be reviewed and discussed.

Part VI. Resources

Chalkboard, Chalk and Eraser
Overhead Projector
Transparencies of Tax Forms from Year II--Unit 1
Copies of Forms 1040, 1065, 1120, 1120S, 3468, 3621, and Schedule G for each Family
SBA Transparency 110
Tax Guide for Small Business (Current Edition)

Part VII. References

1. Internal Revenue Service, Department of the Treasury, Tax Guide for Small Business, Publication 334, Washington, D.C., U.S. Government Printing Office (Current Edition).

2. Persons, Edgar et al., Small Business Management: Curriculum, Year I--Unit 12, Division of Agricultural Education, University of Minnesota, St. Paul, 1976.

3. Small Business Administration, Managing for Profits, by Harvey C. Krentzman, Washington, D.C., U.S. Government Pringint Office, 1968.

Part VIII. Appendices

A. Form 3621 Net Operating Loss Computation

FORM 3621 (REV. MAY, 1973)	DEPARTMENT OF THE TREASURY - INTERNAL REVENUE SERVICE **NET OPERATING LOSS COMPUTATION**	STATEMENT SCHEDULE
NAME		TAX YEAR ENDED

1. STATUTORY LOSS AS SHOWN IN: ☐ RETURN AS FILED ☐ SCHEDULE ________			
2. MODIFICATIONS:			
ADD: (a) DIVIDENDS RECEIVED DEDUCTION			
(b) DIVIDENDS PAID DEDUCTION			
(c) TOTAL *(Lines 1, 2(a), and 2(b))*			
LESS: (d) DEDUCTION CLAIMED FOR WESTERN HEMISPHERE TRADE CORP.			
(e) NET OPERATING LOSS DEDUCTION CLAIMED			
(f) NET CAPITAL LOSS DEDUCTION CLAIMED			
(g) 50% CAPITAL GAIN DEDUCTION CLAIMED			
(h) DEDUCTIONS CLAIMED FOR PERSONAL EXEMPTIONS			
(i) NON-BUSINESS DEDUCTIONS IN EXCESS OF NON-BUSINESS INCOME:			
NON-BUSINESS DEDUCTIONS *(Not including casualty losses or losses from sale of business assets)*			
LESS: NON-BUSINESS INCOME *(Include capital gains at 100% and 1120-S Income)*			
EXCESS, IF ANY			
3. TOTAL *(Lines 2(d) through 2(i))*			
4. NET OPERATING LOSS *(Line 2(c) less line 3)*			

EXPLANATION AND COMPUTATION OF MODIFICATIONS *(If necessary)*

Year II--Unit 12

CLOSING THE SMALL BUSINESS RECORD SYSTEM FOR ANALYSIS

Part I. Student Objectives

A. Given examples for apportioning income and expenses to the various units or departments in the business, the student will demonstrate his/her ability to departmentalize the close-out of his/her own record system for analysis.

B. With the instructor's assistance, a current "Checklist for Closing the Small Business Record System," and the "Supplemental Information Form," the student will demonstrate his ability to close out his record system for analysis.

Part II. Transition of Units

The previous unit dealt with income tax planning and management. Special credits, income averaging and tax estimating were covered.

This unit completes the Year II instruction by detailing the close-out of the record system, with a special emphasis on departmentalization.

The beginning unit of Year III will discuss attributes of the successful small business entrepreneur.

Part III. Lesson

Attention Focuser

Failure to close-out a record system for analysis might be compared to the orchard grower who chopped down all his fruit trees before the fruit ripened, thus failing to recover the fruits of his labor. The close-out procedure should be viewed as a dynamic event, not as a terminal one.

KEY QUESTION 1. How do you departmentalize the business records for analysis?

A. Income allocation

B. Expense apportionment

Suggested Teaching Strategy

Utilize the Small Business Administration's "Basis of Apportionment" information from the appendix. Point out that this list is for small manufacturers, but with slight modification could be utilized by most small business operators.

Refer to the departmentalized sample business analysis in the appendix of Year II--Unit 1 for an example of how a record system can be departmentalized.

Encourage class members who departmentalized the first year's records to comment on their experiences with the procedure.

KEY QUESTION 2. How are the second year's records closed out for analysis?

A. "Checklist for Closing the Small Business Record System"

B. "Supplemental Information"

Suggested Teaching Strategy

Utilize the current Instructions for Completing Computer Data Forms for the Small Business Management Program, Appendix B, for closing the records from the analysis center. Point out where revisions have been made from the first year's close-out procedures. This will require using the new data input forms.

Review the current supplemental information form, Appendix C, with the class. Stress the importance of accuracy and completeness in the close-out procedure. Discuss with the class any difficulties encountered during the first year's close-out.

Part IV. Summary

A. Departmentalization can be a valuable business analysis tool if completed accurately.

B. An accurate and complete close-out of the record system is possible only if the instructions from the analysis center are followed carefully.

Part V. At-The-Business Instruction

Start working on the close-out procedure with each business family. Schedule working sessions with them to get the earliest possible accurate closing of the records. Through the close-out procedure notes should be taken by both the business family and the instructor concerning any changes needed in the record system to obtain a better analysis in future years.

Part VI. Resources

Chalkboard, Chalk, and Eraser
Overhead Projector
Transparency and Handouts of Appendices
Handouts of "Checklist for Closing the Small Business Record System" and the "Supplementary Information" form
Transparency of Year II--Unit 1 Appendix: Sample Departmentalized Business Analysis

Part VII. References

1. Division of Agricultural Education, University of Minnesota, "Checklist for Closing the Small Business Record System," St. Paul, 1975.

2. Division of Agricultural Education, University of Minnesota, "Supplementary Information Form," St. Paul, 1975.

Part VIII. Appendices

A. Basis of Apportioning Costs

B. Instructions for Completing Computer Data Forms for the Small Business Management Program

C. Supplemental Information Form

Appendix A

BASIS OF APPORTIONING COSTS*

Classifications	Basis of Apportionment
Dep[illegible]ion of buildings	Floor space occupied. Cubic space occupied. (Consideration should be given to specific unusual building requirements of departments.)
Depreciation of machinery and equipment	Relative cost of machinery and equipment used in each department.
Fire insurance premiums	Relative valuation of insured items in each department.
Janitor service	Floor space and perhaps window space.
Indirect labor	Direct charge to departments benefited (estimates).
Supplies	Departmental usage--often based on estimates.
Rent of building	Floor space occupied. Cubic space occupied.
Power and light	Actual metered consumption. Consumption computed as rated capacities of equipment times hours of use.
Unemployment and old age and survivors' insurance	Payrolls of covered employees.
Stockroom	Number of requisitions. Quantities of materials used.
Payroll department	Number of employees.
Taxes on building	Valuations of space occupied.
Taxes on machinery and equipment	Valuations of equipment utilized.
Small tools	Cost of tools used.
Repairs	Actual costs in each department.
Superintendence	Estimates of superintendent time spent in each department.

---

*Small Business Administration. Cost Accounting For Small Manufacturers. Small Business Management Series No. 9. Washington, D. C., U. S. Government Printing Office, 1953, p. 55.

Appendix B

INSTRUCTIONS FOR COMPLETING COMPUTER DATA FORMS FOR THE SMALL BUSINESS MANAGEMENT PROGRAM

The instructions which follow are for Computer Data Forms 1 and 2 and the Supplementary Form F-10 developed in November, 1975. The instructions clarify the procedures for transferring data from business records to the data forms. Uniform procedures among analysis areas will permit small business records to be used in special sorts without regard to analysis boundaries and to provide a variety of teaching materials for use in adult small business management instruction.

Recorders should consider each item carefully before placing the information on the data sheets. Directions for recording quantities and values must be observed carefully to avoid costly errors in the final analysis report. The design of the computer forms aids in direct transfer of data from the standardized chart of accounts as well as from most single-entry bookkeeping systems. Every effort has been made to eliminate the necessity for calculating quantities and values prior to entry on the computer data forms.

Data Form Identification

Code Number

Each cooperator should be assigned a unique 10 digit code for identification. The code number should remain the same from year to year and must be identical on all forms used in the analysis of a particular business, including the computerized depreciation schedule.

State	Area Center	Business Type	Cooperator Number
___/___ -	___/___	___/___/___	___/___/___

State Code Assignments

01	Alabama
02	Alaska
03	Arizona
04	Arkansas
05	California
06	Colorado
07	Connecticut
08	Delaware
09	Florida
10	Georgia
11	Hawaii
12	Idaho
13	Illinois
14	Indiana
15	Iowa
16	Kansas
17	Kentucky
18	Louisiana
19	Maine
20	Maryland
21	Massachusetts
22	Michigan
23	Minnesota
24	Mississippi
25	Missouri
26	Montana
27	Nebraska
28	Nevada
29	New Hampshire
30	New Jersey
31	New Mexico
32	New York
33	North Carolina
34	North Dakota
35	Ohio
36	Oklahoma
37	Oregon
38	Pennsylvania
39	Rhode Island
40	South Carolina
41	South Dakota
42	Tennessee
43	Texas
44	Utah
45	Vermont
46	Virginia
47	Washington
48	West Virginia
49	Wisconsin
50	Wyoming

Area Center Code Assignments--Minnesota

01	Albert Lea
02	Alexandria
03	Anoka
04	Austin
05	Bemidji
06	Brainerd
07	Canby
08	Dakota County
09	Detroit Lakes
10	Duluth
11	East Grand Forks
12	Eveleth
13	Faribault
14	Granite Falls
15	Hibbing
16	Hutchinson
17	Jackson
18	Mankato
19	Minneapolis
20	Moorhead
21	Pine City
22	Pipestone
23	Red Wing
24	Rochester
25	Saint Cloud
26	Saint Paul
27	Staples
28	Suburban Hennepin County--South, Eden Prairie
29	Suburban Hennepin County--North, Brooklyn Park
30	Thief River Falls
31	Wadena
32	White Bear #916
33	Willmar
34	Winona

The code for each individual business should remain the same from year to year to permit easy data retrieval.

IDENTIFICATION CODE	Print full 10 digit identification number.
OPERATOR NAME	Print full name.
BUSINESS NAME	Print full business name.
SCHOOL	This is the area center in which the cooperator is enrolled in small business management education.
CITY	City address of school.
STATE	Minnesota, to differentiate from Texas, North Carolina, Arizona, New Mexico and other states that use the same program for record analysis.
DATE	Record the date the data sheet is completed or you may prefer to use the date the sheets are submitted to the analysis center.
INSTRUCTOR	Full name of the instructor.
BUSINESS YEAR	Record beginning and ending dates of business year.

Complete the column headed "No. of Persons" by using the identification of family members in the description column. This area is immediately below the Business Year.

The information described above should be clearly printed on Data Form 1. Data Form 2 need only have the identification number and the business name filled in.

Data Form 1--Inventory and Personal

All entries on Data Form 1 must be rounded off to the nearest dollar. All figures that appear in shaded areas, footnotes, etc. will be ignored by the analysis center. The way each item is used in the analysis report may be determined by consulting the Documentation for Small Business Analysis.

November, 1975.

Lines 101 through 321 of all columns should be recorded to the nearest dollar. Each column (A, B, C, D) provides opportunities to divide the items into beginning and ending inventories for business and personal.

Negative numbers should be ( ) bracketed.

Instructions--Data Form 1

Lines 101-102	Ledger balance or check book balance for cash, Col. A, is Beginning of Year Business; Col. B, End of Year Business; Col. C, Beg. Inv.-Personal; Col. D, End. Inv.-Personal.
Line 108	Only used if an aging schedule cannot be gotten from the business operator.
Lines 109-112	Aged A/R. If aging is listed, do not fill in the 108 A/R Control total.
Line 114	Allowances Bad Debts. Few businesses use this in small business. Generally they charge bad debts off directly.
Line 115	Notes Receivable. Summarize all notes receivable and put in this category.
Line 116	Open Account. Can be used for any current asset category not on Form 1 that is needed by the business operator. Such things as cash surrender value of life insurance, prepaid interest, etc. might be placed in this code number. Write description of item following "Open."
Line 161	Prepaid Insurance. Summarize all insurance that has been prepaid and place total on line 161.
Line 162	Prepaid Taxes. Summarize all prepaid taxes and place total on line 162.
Line 163	Open Account. Can be used for any other current asset category needed that isn't listed on Form 1. Write description of item following "Open."
Line 181	Land. Historical cost of all land used in the business. Col. A, Beg. Inv.-Business; Col. B, End. Inv.-Business; Col. C & D used for all other land not used in the business.
Line 182	Buildings. Historical cost of all buildings used in the business. Col. A is the Beg. Inv. of these buildings and Col. B is the End. Inv. of these buildings adjusted for purchases and sales. Col. C is the Beg. Inv. of historical cost for all buildings not included in the business. This includes the personal, home, garage, and other out-buildings. Col. D is the End. Inv. of these personal buildings adjusted for purchases and sales.

Line 183	Accum. Depr.-Buildings. Col. A is the Beginning of the Year Accum. Depr.. Col. B is the End of the Year Accum. Depr. adjusted by purchases, sales and current year depreciation. Col. C & D will not be used unless part of the home and other buildings are used partially for business and therefore depreciable.
Line 184	Equipment & Fixtures. (Same as for Line 182.)
Line 185	Accum. Depr.-Equipment and Fixtures. (Same as for Line 183.)
Line 186	Vehicles. (Same as for Line 182.)
Line 187	Accum. Depr.-Vehicles. (Same as for Line 183.)

LIABILITIES

Line 208	A/P Control. Line 108 is used only if an aging schedule cannot be gotten from the business operator. If an aging schedule can be obtained, go directly to #209, 210, 211 and 212, bypassing #208. If an aging schedule cannot be obtained, Col. A should be the Beg. Inv. of all Business A/P.
Line 209	A/P 0-30 Days. This line should be used only if an aging schedule can be produced.
Line 210	A/P 30-60 Days. (Same as for Line 209.)
Line 211	A/P 60-90 Days. (Same as for Line 209.)
Line 212	A/P >90 Days. (Same as for Line 209.)
Line 216	Notes Pay.-Bank. Enter Col. A, Total Beg. Inv. of Business Notes Payable. Enter Col. B, Total End. Inv. of Business Notes Pay. Enter Col. C, Total Beg. Inv. of Personal Notes Pay. Enter Col. D, End. Inv. of Total Personal Notes Payable.
Line 217	Notes Pay.-Other. Enter any other notes payable in the same manner as used in Line 216.
Line 218	Interest Payable. Enter Col. A, Beg. Inv. of Total Business Interest Payable. Enter Col. B, End. Inv. of Total Business Interest Payable. Col. C used for Beg. Inv. of Total Personal Interest Payable. Col. D is used to enter End. Inv. of Total Interest Payable.
Line 219	Open Account. Can be used for any current liability not listed on Form 1. Such categories as Sales Tax Payable and Utilities Payable would be appropriate for this category. If using this code number, instructor must print in the description to receive the output with more than just a code number description. Col. A for Beg. Inv. of Business; Col. B, End. Inv. of Business; Col. C for Beg. Inv. of Personal; Col. D, End. Inv. of Personal. Lines 220, 221, 222 and 223 will be used only for business information. Columns C and D are not used.

Line 220	Federal & FICA Payable. Col. A, Beg. Inv. of Total Business Fed & FICA Payable. Col. B, End. Inv. of Total Business Fed. & FICA Payable.
Line 221	State Withholding Payable. Col. A, Beg. Inv. of Total Business State Withholding Payable. Col. B, End. Inv. of Total Business State Withholding Payable.
Line 222	Federal Unemployment Payable. Col. A, Beg. Inv. of Total Business Federal Unemployment Payable. Col. B, End. Inv. of Total Business Federal Unemployment Payable.
Line 223	State Unemployment Payable. Col. A, Beg. Inv. of Total Business State Unemployment Payable. Col. B, End. Inv. of Total Business State Unemployment Payable.
Line 224	Sales Tax Payable. Col. A, Beg. Inv. of Total Business Sales Tax Payable. Col. B, End. Inv. of Total Business Sales Tax Payable. Columns C and D are not used for this line number.
Line 225	Property Tax Payable. Col. A, Beg. Inv. of Total Business Property Tax Payable. Col. B, End. Inv. of Total Business Property Tax Payable. Col. C, Beg. Inv. of Personal Property Tax Payable. Col. D, End. Inv. of Personal Property Tax Payable.
Line 226	Open Account. This line is for any other current liabilities that are not included above. Col. A for the Beg. Inv. balance in the business, Col. B for the End. Inv. balance in the business, Col. C for the Beg. Inv. balance in the personal section and Col. D for the End. Inv. balance in the personal section. Write description of item following "Open".
Line 261	Mortgage Payable. Col. A, Beg. Inv. of the balance in the Business Mortgage Payable. Col. B, End. Inv. of the balance in the Business Mortgage Payable Account. Col. C, Beg. Inv. of all Mortgages Payable in the personal section. Col. D, End. Inv. of all Mortgages Payable in the personal section.
Line 262	Intermediate Loans. This category includes but is not limited to, auto loans, operating loans and other long term loans. Col. A is for Beg. Inv. balance of Business Intermediate Loans. Col. B, End. Inv. balance of Business Intermediate Loans. Col. C, Beg. Inv. balance of Personal Intermediate Loans. Col. D, End. Inv. balance of Personal Intermediate Loans.
Line 263	Other Long Term Liabilities. This category includes any other Long Term Liabilities not shown above. Col. A, Beg. Inv. Business; Col. B, End. Inv. Business; Col. C, Beg. Inv. Personal; and Col. D, End. Inv. Personal. Write Description of item following "Open".
Line 310	Capital Account-Owner. Col. A, Beg. Inv. of Business Capital Acct.; Col. B, End. Inv. of Business Capital Acct. Col. C & D not used.

Line 311	Capital Account-Other. Col. A, Beg. Inv. of Business Capital Account.-Other; and Col. B, End. Inv. of Business Capital Account-Other. Columns C and D not used.
Line 312	Capital Account-Other. (Same as for line 311.)
Line 320	Draw Account. This account is the amount of money and goods drawn out of the business for the business operator. This amount does not include any money sent in for personal federal and state estimated tax payments. Col. A is the Ending Inventory figure for the prior year. Col. B is the Ending Inventory figure for the current year. Columns C and D are not used.
Line 321	Federal and State Estimated Payments. This account is a supplement to the Draw Account. It is the money sent in for personal federal and state estimated tax payments. Col. A is the Ending Inventory figure for the prior year. Col. B is the Ending Inventory balance for the current year. Columns C and D are not used.
Line 397	Net Profit - Prior Year. Only Col. A is used with this line number. The computer will calculate the present year profit to date but the instructor must include the previous year's profit on line 397, Col. A.

PERSONAL EXPENSES

Report all personal expenses from the personal section of the account book.

Lines 813-816	Record as indicated, personal amount of heat, electricity, water and telephone.
Line 817	Record as indicated, the personal share of home owner's insurance, auto insurance, life insurance, etc.
Line 818	Record all personal interest paid throughout the year. This includes but is not limited to interest on mortgages, loans, notes and finance charges on credit card accounts.
Lines 819-822	Record all repairs and maintenance on land, home & buildings, equipment & fixtures and vehicles.
Line 823	Record all gas, oil and grease used in the home, equipment & fixtures and vehicles. This does not include fuel oil, natural gas or propane used for heating purposes. These would be recorded on line 813.
Line 824	Report any legal and accounting fees paid throughout the year.
Line 825	Report the total of all personal property taxes paid.
Line 826	Report all contributions made throughout the year. This includes but is not limited to contributions to medical associations and charitable organizations. It does not include contributions to church; they are reported on line 860.

BEST

Line 829	Record all personal entertainment expenses.
Line 830	Record all dues and subscriptions.
Line 831	Record all licenses purchased.
Line 832	Record all travel and recreation.
Line 839	Record all rent paid. This includes personal apartment rent, garage rent, etc.
Line 841	Record all miscellaneous expenses not shown elsewhere on this form.
Line 843	Report all postage expenses.
Line 850	Record directly from the account book all supplies purchased.
Line 860	Report all personal contributions to church.
Line 862	Report all medical expenses. Medication, dental, doctor and any other medical expenses are included on this line.
Line 864	Enter total foods and meals bought from the cooperator's personal account. This category includes general grocery purchases, and lunches and dinners out, which do not qualify as a business expense.
Line 866	Report all clothing purchased.
Line 868	Report all educational expenses. This includes but is not limited to college tuition, books, special classes and career training.
Line 870	Report all goods and services taken out of the business for personal use.
Line 076	Report total money borrowed for personal use in column A.
Line 070	Report total money borrowed for business use in column B.
Line 078	Report total principal payments made on personal loans in Col. A.
Line 074	Report total principal payments made on business loans in Col. B.
Line 088	Report all non-business personal income. This includes but is not limited to wages received for work outside the business, interest income, investment income and securities income.
Line 090	Calculation of the number of persons in the family is done on the side of this form.
Line 095	Calculation of adult equivalents is done on the side of this form.

ASSET TRANSACTIONS

Line 710	Report total sales of all land. Column A for personal and Column B for business.
Line 715	Report cost of all land sold. Generally, this would be the historical cost plus any improvements made. Column A for personal and Column B for business.
Line 720	Report total sales of all buildings. Column A for personal and Column B for business.
Line 725	Report remaining cost of all buildings sold. Column A, personal, would be the historical cost plus improvements minus any casualty losses incurred. Column B, business, would be the final historical cost minus accumulated depreciation to date minus any casualty losses incurred.
Line 730	Sales of equipment & fixtures. (Same as for line 720.)
Line 735	Cost of equipment & fixtures. (Same as for line 725.)
Line 740	Sales of vehicles. (Same as for line 720.)
Line 745	Cost of vehicles sold. (Same as for line 725.)
Line 760	Report the total price of all land purchased. Column A for personal and Column B for business.
Line 770	Purchases of buildings. (Same as for line 760.)
Line 780	Purchases of equipment & fixtures. (Same as for line 760.)
Line 790	Purchases of vehicles. (Same as for line 760.)

DEPARTMENT CODES: Enter on the proper line the name or title of each department to be analyzed.

FORMS 2A & 2B - INCOME & EXPENSE DATA

When the business is departmentalized, all business totals should be appropriately distributed among departments.

Line 121	Merchandise Inventory. Record data from the inventory sheets in the account book or ledger. When the business is departmentalized, inventories should be appropriately distributed among departments.
Line 141	Secondary Merchandise Inventory. Record data as described in Line 121.

ENDING INVENTORIES

Line 131	Merchandise Inventory. These are the ending inventories associated with account number 121. The code has been changed on the data sheets only to aid in the key punching of data for analysis.
Line 151	Secondary Merchandise Inventory. These are the ending inventories associated with account number 141. Again, the code number has been changed only to aid in key punching.

SALES & REVENUES

Line 421	Merchandise-Sales. This category is total merchandise-sales less returns. Again, when the business is departmentalized, all lines should be appropriately distributed among departments.
Line 441	Secondary Merchandise-Sales. (Same as for line 421.)
Line 460	Labor-Customer. (Same as for line 421.)
Line 461	Labor-Outside (Sublet). (Same as for line 421.)
Line 462	Labor-Internal. (Same as for line 421.)
Line 463	Labor-Warranty. (Same as for line 421.)
Line 472	Parts-Internal. (Same as for line 421.)
Line 473	Parts-Warranty. (Same as for line 421.)

Enter all non-sales type of revenues in the business total, Column A. Distribute to the various departments where appropriate.

Line 480	Interest Income. Report all interest income from such sources as stocks, bonds, notes receivable, etc.
Line 481	Rental Income. Report all supplemental rental income on this line if no department has been specifically set up for it.

Line 482	Royalties Income. Report the same as for line 480.
Line 490	Purchase Discounts. Report the same as for line 480.
Line 491	Volume Discounts. Report the same as for line 480.
Line 492	Other. This is an extra income category. It is used whenever the business has income that can not be included elsewhere in the sales & revenue section.

PURCHASES

Line 521	Merchandise-Purchases. This category includes total merchandise purchases less returns. When the business is departmentalized, all lines should be appropriately distributed among departments.
Line 541	Secondary Merchandise-Purchases. (Same as for line 521.)
Line 550	Freight-In Costs. (Same as for line 521.)
Line 561	Production Cost-Sublet Labor. Report all sublet labor costs that are to be included in cost of goods or services sold. (Same as for line 521.)
Line 570	Production Cost-Labor. Report all production labor costs that are to be included in cost of goods or services sold. (Same as for line 521.)

OTHER CATEGORIES

Line 052	Report the total number of full-time workers. This line includes the operator.
Line 054	Report the total number of hours worked by full-time employees. This does not include the hours worked by the operator. (All lines dealing with hours worked should be broken out among departments.)
Line 056	Report total number of part-time workers. (Do not count if less than 10 hours per week.)
Line 058	Report the total number of hours worked by part-time employees.
Line 060	Report the total number of hours worked by unpaid family labor.
Line 062	Report the dollar value of the unpaid family labor.
Line 064	Report the number of hours worked by the business operator.
Line 066	Report the number of hours worked by partners in the business.
Line 068	Report the value of partner's labor.

PERCENTAGE ALLOCATIONS

Line 080	If the exact hours have not been broken out among departments, list a percentage allocation among departments.
Line 082	Record a percentage allocation by department for the use of total investment.
Line 084	If all the expense categories are not specifically allocated, list a percentage figure for each department. The analysis center will then compute a percentage allocation for all expenses not specifically allocated.

EXPENSES

All business expense lines should be appropriately distributed among departments. Instructors are cautioned to take care that the expense categories that are both business and personal be put in their proper line areas.

Lines 609-611	Record as indicated. Paid family labor (separate from the regular payroll records), general salaries & wages and payroll taxes.
Line 612	Record all advertising expenditures.
Line 613-616	Record as indicated from the utilities section of the account book.
Line 617	Record from the insurance section of the account book or ledger all insurance paid during the year. This category includes business liabilitity, fire and content and truck insurance but it does not include health insurance for employees. This would be included on line 645 as an employee fringe benefit.
Line 618	Record the total amount of interest paid on all debts throughout the year.
Lines 619-622	Record as indicated from the repairs & maintenance section. Separate the four categories.
Line 623-630	Report as indicated from the general expense ledger.
Line 631	Record from the expense ledgers or account books the total of all business licenses. This category includes but is not limited to food handlers' licenses, liquor licenses, meat licenses, etc.
Lines 632-633	Record as indicated.
Lines 634-637	Record from the depreciation schedule. Be sure to break down the depreciation by the indicated categories.
Lines 638,639	Record as indicated.
Line 640	Record the cash longs with a bracket. If a cash short, report as a usual expense.

Lines 641-644	Record as indicated.
Line 645	Record as indicated. Employee benefits include employer-paid health insurance, club memberships, life insurance, etc.
Line 646-650	Record as indicated.
Lines 651-654	Record as indicated. These categories are open accounts. If expenses that have occurred throughout the year cannot be placed in the above categories, place them here. The instructor may print in the name of the expense. If this is done, the analysis will return with that name included.

Supplementary Data Form
F 10, 1976

SMALL BUSINESS ANALYSIS
University of Minnesota
USOE Project 0733-5606

Name of business____

Address____________________________________Phone_________

What year did you start your current business as a lessee?_____As an owner?_____

School where enrolled______________________________Instructor__________

I. Members of family living at home during the year

		Age	Years of School Completed	Months Devoted to Business
Operator				
Spouse				
Other Family Members				

II. Prior Year Business Data

Note: The following information refers to the year prior to the first SBM analysis you received. If this is your first analysis it will refer to your 1974 business year data. If this is your second analysis it refers to your 1973 business year.

A. Was there any substantial change in the manner of determining quantities, costs, or valuations between opening and closing inventory during the prior business year? (See Note above.) _____Yes _____No. If "Yes", describe change.

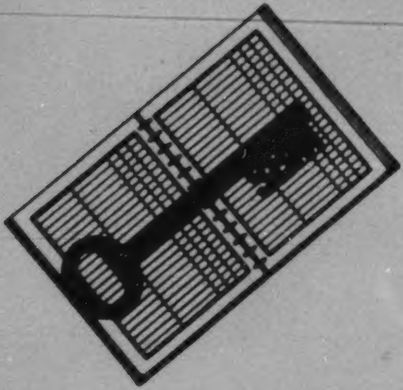
____
____
____
____

B. Net profit or (loss) from business in prior business year (See Note above) as shown on line 21 of Schedule C. $___________.

III. Program Data

A. Approximate number of miles you travel (round trip) to SBM Class._____miles.

B. Number of SBM Classes attended in 1974_____ and 1975_____.



SMALL BUSINESS MANAGEMENT III

SMALL BUSINESS REORGANIZATION

UNIT 1 ATTRIBUTES OF SUCCESSFUL SMALL BUSINESS ENTREPRENEURS 3.3

UNIT 2 DETERMINING THE MOST PROFITABLE LEVEL OF OPERATION 3.9

UNIT 3 EVALUATING DEPARTMENTAL SELECTIONS 3.17

UNIT 4 WHAT DO TWO YEARS OF RECORDS MEAN? 3.23

UNIT 5 EVALUATING OVERHEAD AND GENERAL BUSINESS COSTS 3.29

UNIT 6 EVALUATING THE MAJOR DEPARTMENTS 3.37

UNIT 7 EVALUATING THE CUSTOMER SERVICE DEPARTMENTS 3.41

UNIT 8 MAXIMIZING INCOME THROUGH REORGANIZING VARIABLE OPERATING EXPENSES AND PRICING 3.45

UNIT 9 MAXIMIZING INCOME THROUGH REORGANIZING WITH INCREASED INVESTMENT OF DEBT LIABILITY 3.61

UNIT 10 MAXIMIZING INCOME THROUGH REORGANIZATION BY ADDITIONAL CAPITAL INVESTMENT 3.89

UNIT 11 SITE, BUILDINGS, MERCHANDISE HANDLING 3.113

UNIT 12 PLANNING TRANSITIONAL STAGES 3.129

INTRODUCTION TO

SMALL BUSINESS MANAGEMENT III

The continuation of families into Small Business Management III, "Small Business Reorganization," will necessitate no radical changes in the program. This advancement into a third year of management education follows the preceding instruction in such a natural way that families will not be especially aware of the intensive study which they are making of their businesses.

These families have been meeting together for more than two years. They are very likely to offer discussion and present problems to the group that would have been strictly personal problems when they first entered the program. For this reason, the families are likely to add more flexibility to the instruction as the year progresses. At-The-Business instruction will also become more flexible and individualized as some of the families begin to make changes in their businesses as a result of the two-year study.

To some families, adjustments or changes in management practices will be major accomplishments. Others will already be considering major changes in departmental or business organization. The job of the small business management instructor should never be to retard progress. In this third year of management education, some families may think they are ready for major changes in their departmental or business organization, when, in reality, they should do a great deal more investigation and planning before reorganization is undertaken. The instructor should strongly urge these families to complete the planning before beginning any major changes.

Each instructor may wish to change the emphasis during this third year. His community is different from any other and each of the small business management groups within the same community may also have different interests and different approaches to their own problems. Whatever the emphasis, it is important that the instruction remain systematic and well planned.

Year III--Unit 1

ATTRIBUTES OF SUCCESSFUL SMALL BUSINESS ENTREPRENEURS

Part I. Student Objectives

A. Given the criteria illustrating the personal characteristics and qualifications of successful entrepreneurs, the student will be able to evaluate him or herself against these standards to help or to consider alternative career objectives.

B. Utilizing the records of past and present accomplishments, the student will be able to evaluate and, if desired, revise the current statement of the family goals and objectives.

Part II. Transition of Units

The previous year concentrated on methods of analyzing the business with an emphasis on departmentalization and ended with a unit on closing out the business record for analysis.

The third year curriculum will concentrate on evaluation and reorganization of the business. This unit begins with a detailed look at the attributes of the business operator.

The following unit will cover "break-even" points in determining a profitable level of operation (marginal cost and marginal return).

Part III. Lesson

Attention Focuser

Prepare a transparency or write the following statement on the chalkboard and ask the class members to give their reaction to it.

> *"The entrepreneur, typically, cannot accept without reservation the leadership of others. He cannot live within a framework of occupational behavior set by others. He must, in the end, seek another way. It is this seeking of another way that, in the most fundamental sense, makes an independent entrepreneur of him." (Collins and Moore, as found in Broom & Longenecker, p. 56)*

KEY QUESTION 1. What are the personal attributes of the successful small business entrepreneur?

WHAT DOES IT TAKE TO BE A BUSINESSMAN?*

1. Ability to get along with people
2. Health and energy
3. A strong desire to build
4. An optimistic spirit
5. A sense of organization
6. Some business background
7. Drive
8. Confidence
9. Self-reliance
10. Independence
11. Willpower
12. Patience
13. Abilities to take worries or to leave them
14. Integrity
15. A feeling for community service

SPECIAL REQUIREMENTS OF THE ENTREPRENEUR**

Insatiable drive for accomplishment
Readiness for new challenges
Acceptance of and dealing with the unusual
Persistent enthusiasm
Sensitivity to civic responsibilities

Suggested Teaching Strategy

The traits listed appear in the published version of the papers of L. T. White. Write the traits on the chalkboard briefly, discussing each item. A review of pages 7 and 8 of this reference will assist the instructor during the discussion.

KEY QUESTION 2. How do you compare with the successful entrepreneur?

STRONG POINTS WEAK POINTS

1. ____________________
2. ____________________
3. ____________________
4. ____________________
5. ____________________

---

*Small Business Administration, Strengthening Small Business Management, Washington, D.C., U.S. Government Printing Office, 1971, pp. 7-8.

**Broom, H.N. and Justin G. Longenecker, Small Business Management, Fourth Edition, Cincinnati, South-Western Publishing Company, 1975, pp. 57-58.

Suggested Teaching Strategy

Ask each student to select five strong points and five weak points from the list in Key Question 1 as they apply to him or herself. When all students have completed a listing of their strong and weak points, distribute "How Do I Rate As An Owner-Manager" from the appendix. Allow the students about ten minutes to complete and total their scores.

These two self-evaluation exercises should give the student a feeling for where he or she ranks in terms of success indicators. The student should consider plans for self-improvement or re-evaluate their career objective should this seem advisable.

KEY QUESTION 3. Is your progress toward stated business and family goals satisfactory?

Suggested Teaching Strategy

Business records are the prime source for evaluating progress toward business goals. Business families should be allowed a few minutes to discuss where they're at in terms of their goals. If a time-table is part of the goals statement, the progress of business activities should be evaluated.

Students should be encouraged to share incidents which aided or hindered reaching established goals.

KEY QUESTION 4. Should your business and family goals be revised?

Suggested Teaching Strategy

This question is a natural progression from the previous question. The instructor can aid business families by asking additional questions designed to keep the idea of goals alive and active. The instructor might review the article entitled "Uniqueness of the Management Instructor's Position" in the July 1975 Visitor for additional ideas on the topic.

Part IV. Summary

A. Not all business owner-managers are successful. It is important to know what traits successful managers tend to have.

B. Progress toward goals should be reviewed periodically with revisions made if necessary or desired.

Part V. At-the-Business Instruction

Review the topic of the unit with the business family if they have questions. Discuss the goals and plans for revisions. Begin work on preparing the business record system for the annual analysis.

Part VI. Resources

Chalkboard, Chalk and Eraser
Handout of Appendix A

Part VII. References

A. References Cited

1. Broom, H.N. and Justin G. Longenecker, Small Business Management, Fourth Edition, Cincinnati, South-Western Publishing Company, 1975.

2. White, L. T. (Selected Papers of), Strengthening Small Business Management, Edited by Joseph C. Schabacker, Washington, D.C., U.S. Government Printing Office, 1971.

B. Other References

1. Palmer, Rodger E., "Uniqueness of the Management Instructor's Position," The Visitor, Vol. LXII, No. 3, Division of Agricultural Education, University of Minnesota, July, 1975.

2. Small Business Administration, Human Factors in Small Business, Administrative Management Course Program Topic 10, Washington, D.C., U.S. Government Printing Office, 1965.

3. Small Business Administration, Personal Qualities Needed to Manage a Store, Small Marketer's Aids No. 145, Washington, D.C., U.S. Government Printing Office, 1972.

Part VIII. Appendices

A. How Do I Rate As An Owner-Manager?

Appendix A

HOW DO I RATE AS AN OWNER-MANAGER?

This should afford a business owner-manager the opportunity to make an honest and useful self-evaluation of essential characteristics of good leadership. Rate each item by checking one of the first four columns. If you are improving, check the last column as well. Give each mark its column value and add them up to find your total score.

	RATINGS				
	1 Weak	2 Average	3 Strong	4 Super	1 Improving
1. How well do I understand my business?					
2. Do I know the abilities of my employees?					
3. Do I instruct every employee properly?					
4. Have I established adequate and clear standards for every job?					
5. Do my employees understand the standards by which they are judged?					
6. Am I always fair and impartial with my employees?					
7. Do I always have a "listening ear" for their complaints?					
8. To what extent do I inspire their confidence?					
9. Do I always keep all promises I make?					
10. Do I always give ample credit where it is due?					
11. Do I keep my temper when they make errors?					
12. Do I seek employee advice in making plans and decisions?					
13. Are they loyal to me?					
14. Am I constantly pursuing a plan of self-improvement?					
15. Do I try to encourage self-improvement among my employees?					
16. Am I quick and accurate in my decisions?					
17. Am I constantly on the alert for work simplification and improvement?					
18. Do I plan my own time?					
19. Do I inform my employees in advance about changes which will affect them?					
20. Just how good a business owner-manager am I?					
Column score					
Total score					

Year III - Unit 2

DETERMINING THE MOST PROFITABLE LEVEL OF OPERATION

Part I. Student Objectives

A. Utilizing the business analysis and an example of how to determine break-even points, the business operator will be able to calculate the break-even point for the whole business.

B. Utilizing the departmental business analysis, the business operator will be able to calculate the break-even points for each department (and product line where applicable).

Part II. Transition of Units

The previous unit looked at the personal attributes of the business operator. A review and evaluation of business and family goals was suggested at this time.

This unit will cover "break-even" points in determining a profitable level of operation at the whole business and departmental levels.

The following unit will use analysis data to locate "problem" departments and will look at the desirability of major changes in the business.

Part III. Lesson

Attention Focuser

Illustrate a high craggy mountain on the chalkboard. The peak or pinnacle represents the "break-even" point. Efforts to reach the pinnacle call for great courage and nothing is really accomplished in the eye of the climber until the peak is reached, and the trip down is begun. This can be equated to a small business losing money until the "break-even" point is reached. Only after reaching the "break-even" point do profits begin to accrue.

The speed one takes to reach the peak is dependent upon how skillfully the path is chosen to avoid the crags. Thus, the small business will reach the "break-even" point quicker as expenses are eliminated or reduced.

KEY QUESTION 1. How do you determine a "break-even" point in business?

The "break-even" point in a business occurs when the sales volume equals fixed and variable expenses. Beyond the "break-even" point the business can expect to reach a profit.

> "The fixed expenses are portrayed as a horizontal section in view of the fact that they do not change with volume of production. The variable expense section slants upward, however, because of the direct fluctuation of variable expenses with output."[1] (page 352, Broom and Longenecker, 4th ed.)

Suggested Teaching Strategy

Utilize Appendix A (in transparency form) to illustrate the mix of sales, variable costs, fixed cost and profit or loss. It is important for each student to visualize the break-even concept. Spend several minutes with this example until everyone has a good mental image of the concept.

KEY QUESTION 2. How does increasing Fixed Costs affect the "break-even" point and the profit percentage?

Suggested Teaching Strategy

Utilize Appendix B (in transparency form) to illustrate how the "break-even" point increases as fixed expenses increase. Point out that profit is reduced if sales are not increased.

This example assumes that variable costs do not change as fixed expenses increase. However, even if labor saving equipment is purchased which reduces labor costs, there may be a partially off-setting equipment maintenance cost.

Appendix C (in transparency form) can be used to show how much of an increase in sales volume is required to maintain the original profit percentage.

An increase of $10,000 in fixed costs, assuming a constant variable cost percentage, requires an additional $66,700 in sales to maintain the original 15% profit figure.

KEY QUESTION 3. How can you determine your own business "break-even" point?

Suggested Teaching Strategy

Appendix D contains data from the sample small business analysis used throughout this curriculum. It should be used in transparency form to illustrate what the business operator must do to plot a business "break-even" point. With the use of graph paper and a rule, have each business operator plot an actual break-even point from the prior year business analysis. Have the business operator plot several combinations of expenses and sales so the break-even principle is fully understood.

KEY QUESTION 4. How can you determine departmental break-even points?

Suggested Teaching Strategy

Utilize department income and expense statements from the previous year's analysis. Follow the guidelines suggested in Key Question 3 of this unit.

Part IV. Summary

A. The break-even concept involves the calculation of sales volume to equal fixed and variable expenses.

B. Break-even points should be calculated for each business department.

Part V. At-The-Business Instruction

Review the concept of "break-even points" with the business operator. Assist in the calculation of various sales volumes needed to produce profit percentages as selected by the operator. Show how the information gained from the calculations can be used in future planning efforts.

Part VI. Resources

Transparencies of Appendices
Graph Paper
12 Inch Rule
Supply of Lined Paper and Pencils

Part VII. References

A. References Cited

Broom, H.N. and Justin G. Longenecker, Small Business Management, 4th ed., Southwestern Publishing Co., Cincinnati, 1975.

B. Other References

1. Gordon, Myron J. and Gordon Shillinglaw, Accounting: A Management Approach, 4th ed., Richard D. Irwin, Inc., Homewood, Ill., 1969.
2. Small Business Administration, Guides for Profit Planning, B. LaSalle Woelfel, Small Business Management Series No. 25, Washington, U.S., Government Printing Office, 1970.

Part VIII. Appendices

A. Projected Break-even Chart For Year Ending December 31, 19__

B. Projected Break-even Chart For Year Ending December 31, 19__

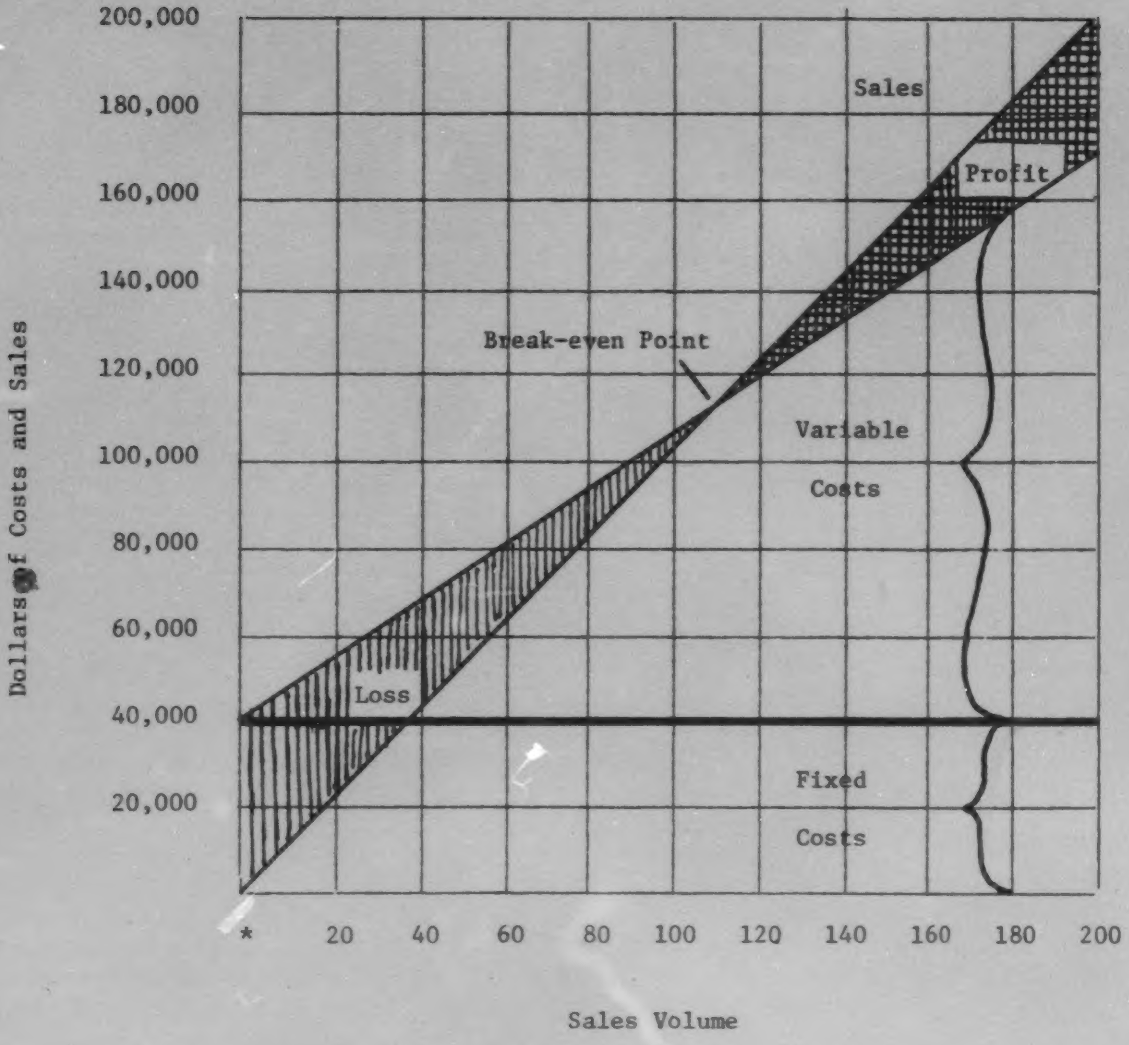
C. Projected Break-even Chart Showing Increased Sales Volume Needed To Maintain 15% Net Profit With a $10,000 Increase In Fixed Costs

D. Projected Break-even Chart For Sample Business Analysis Showing Effect of Doubling Fixed Costs and Increasing Sales to $200,000.00

Appendix A

Projected Break-even Chart

Year Ending December 31, 19___

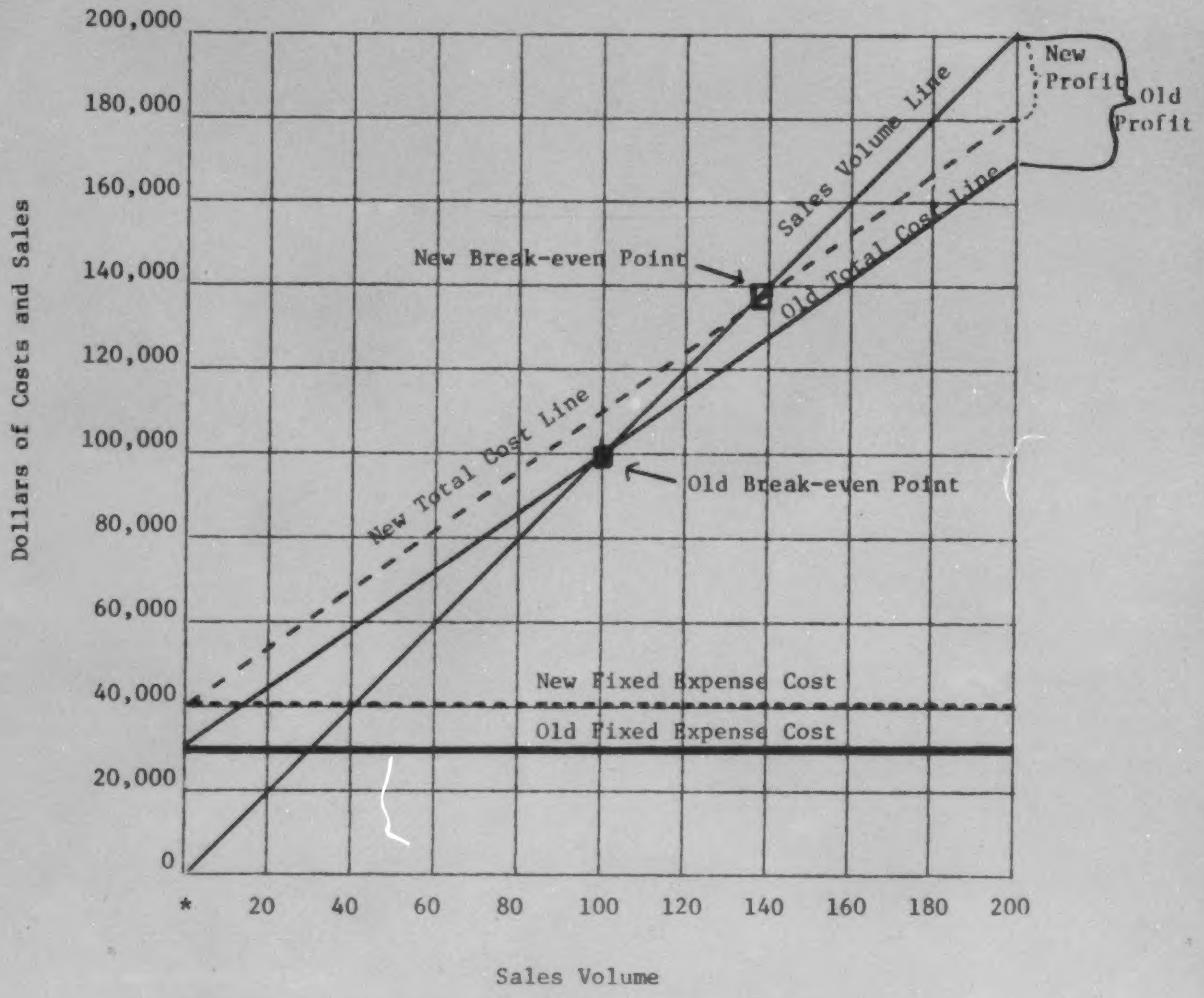


* = Thousands

Appendix B

Projected Break-even Chart

Year Ending December 31, 19__



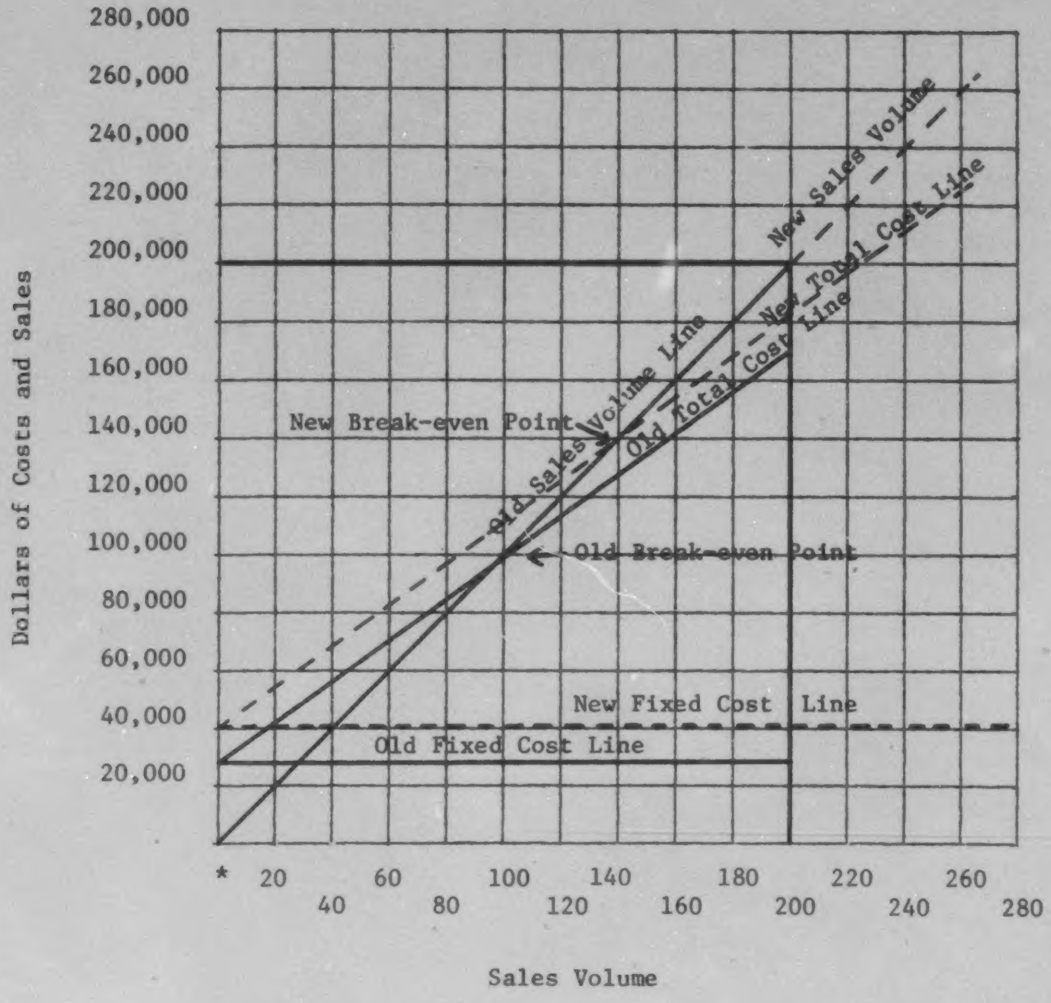
* = Thousands

	OLD	%	NEW	%
Sales Volume	200,000	100	200,000	100
Variable Costs	140,000	70	140,000	70
Fixed Costs	30,000	15	40,000	20
Net Profit	30,000	15	20,000	10

3.14

Appendix C

Projected Break-even Chart Showing Increased Sales Volume Needed To Maintain 15% Net Profit With A $10,000 Increase In Fixed Costs.

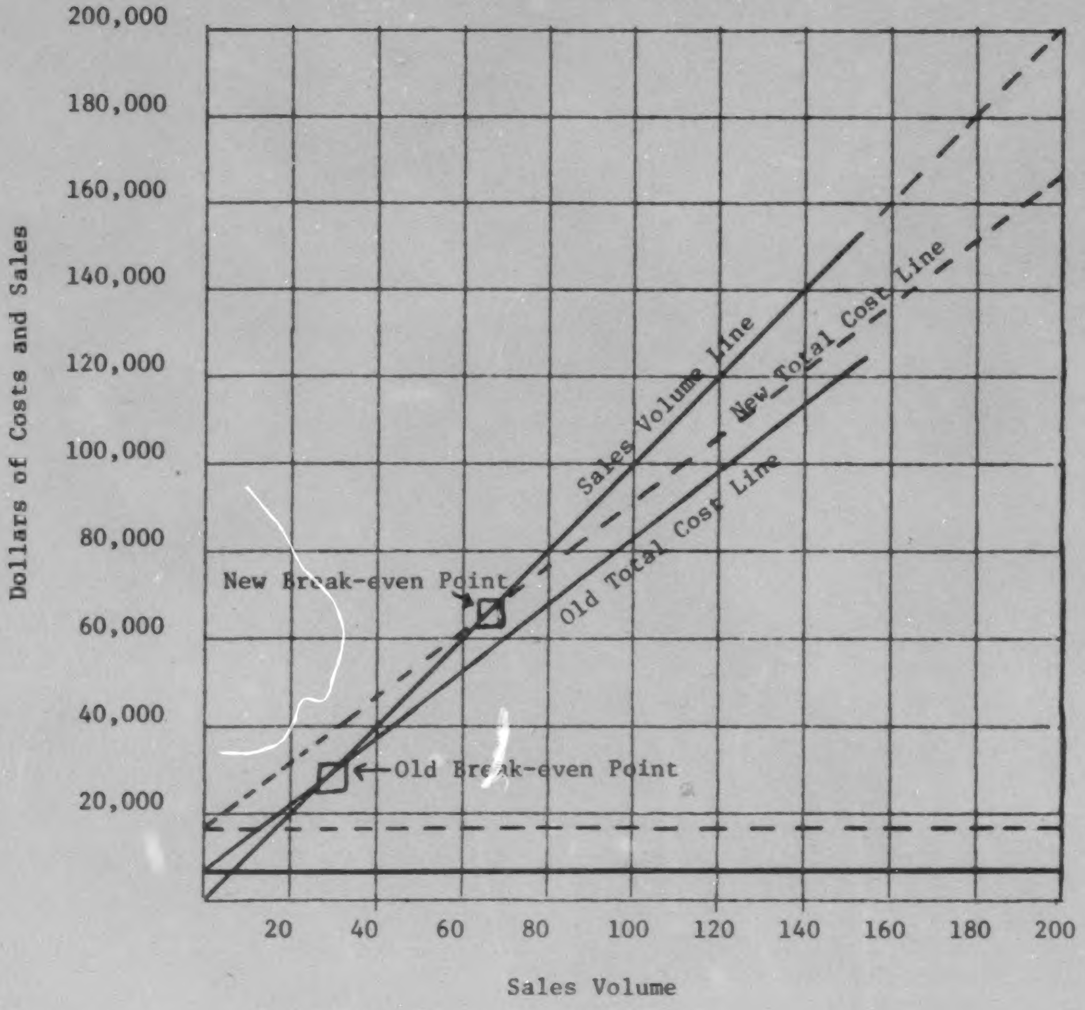


	OLD	%	NEW	%
Sales Volume	200,000	100	266,700	100
Variable Costs	140,000	70	186,690	70
Fixed Costs	30,000	15	40,000	15
Net Profit	30,000	15	40,010	15

* = Thousands

Appendix D

Projected Break-even Chart For Sample Business Analysis Showing Effect of Doubling Fixed Costs And Increasing Sales To $200,000



* = Thousands

	OLD	%	NEW	%
Sales Volume	153,203	100.0	200,000	100.0
Variable Costs	112,740	73.6	147,200	73.6
Fixed Costs	9,000	5.9	18,000	9.0
Net Profit	31,463	20.5	34,800	17.4

Year III--Unit 3

EVALUATING DEPARTMENTAL SELECTIONS

Part I. Student Objectives

A. Utilizing the business analysis to identify prior and current departmental performance, the small business operator will be able to determine each department's contribution to the whole business.

B. Given models of small business departmentalization based primarily on the controlling function of the business with respect to economics, market demand and personnel, the small business operator will be able to evaluate and reorganize (if necessary) his/her business departments.

C. Utilizing information gained in Objectives A and B together with market outlook data, the small business operator will be able to establish departmental goals as subsets of the total business and family goals.

Part II. Transition of Units

The previous unit covered the "break-even" point concept. It illustrated the concept at the whole business and departmental levels.

This unit will use business analysis data to locate "problem" departments. The desirability and direction of major changes in business departmentalization will be covered.

The following unit will utilize the previous two years' annual business analyses to plot or graph major points for comparative analysis.

Part III. Lesson

Attention Focuser

Divide the class into four groups. Identify them as department A, B, C and D. State that they represent four departments of a small business. The business showed a net operating loss during the past year. Give each group (department) ten minutes to suggest a plan to eliminate the problem (unprofitable) department. Give them no other information. At the end of 10 minutes, have a speaker from each group briefly report what they decided. The object of this exercise is to point out that much information is required to make this kind of decision.

KEY QUESTION 1. What are the reasons for departmentalizing a small business?

Two basic factors take precedence over accepted bases for departmentalization.

a. Size--one man operation vs. multiple employees

b. Departmental goals--loss: break-even: profit

Henry L. Sisk defines the well-recognized and accepted bases for departmentalization as:

> "(1) function, (2) product, (3) customer, (4) geography, (5) process, and (6) sequence" (Sisk, p. 293)

Suggested Teaching Strategy

Not all businesses can or should be departmentalized. It is important to discuss the reasons for departmentalizing before going into a business reorganization.

Sisk feels the function basis assumes that related activities or skills should be grouped to accomplish a common goal. The product basis is used with diverse product lines, while the customer basis relates to the needs of the customer for specific product interests. The geography basis implies physical separation of departments. The process basis accounts for equipment or processes found in the production of a product. The final basis suggested by Sisk, that of sequence, primarily refers to larger businesses requiring subdivisions for control purposes.

KEY QUESTION 2. What is the contribution of each department to the whole business?

Suggested Teaching Strategy

Utilize the Table 9 Departmental Analyses from Year II, Unit I to illustrate the contributions of each department from the sample business. It should be pointed out that each department contributes income, and from a negative relationship, expenses, to the total business. Appendix A is a brief summary of the six departments in the sample business.

Utilize Appendix A to illustrate variation in departmental contributions. Appendix B can be used as a worksheet to summarize the students' business departments.

KEY QUESTION 3. How do you assess the worth of a service department?

The term "forecasting" can be used to help answer this question. The contribution of a service department (profit or loss) should be assigned to its complimentary product or department, and then an effort made to determine what would happen without the service.

In a small business it might be difficult to rely on industry averages for comparative purposes. The real question lies in determining how much the "service is worth."

Suggested Teaching Strategy

Re-calculate Appendix B for the major business departments, but assign all income and expenses to appropriate complimentary major departments.

Stimulate discussion around the worth of the service that would be lost by eliminating the service department. Point out that if the service department produces any margin at all, it probably should be kept because. . "Its termination, therefore, would not cause any significant reduction in the volume of indirect expenses". (Niswonger & Fess, p. 478)

KEY QUESTION 4. How do you assign departmental goals?

It is logical to assume that whole business goals will be divided among the departments. Several factors need to be considered before establishing goals at the departmental level. Historical data, market outlook, appraisal by management, and possible engineering consultant standards are among these factors.

Both long and short range goals are an important part of the process as stated by Sisk. "The inclusion of a measurement of balance between short-range and long-range goals forces a company to review its entire planning process and emphasizes that future success is dependent upon the execution of carefully developed plans." (Sisk, p. 624)

Goals should serve as a standard against which to measure performance. However, as stated in earlier units of instruction they should be viewed as active and dynamic -- not passive or unchanging. Goals can and should be modified if the business operator determines there is a need to do so.

Suggested Teaching Strategy

The business operator, through comparison of departmental margin percentages, should be encouraged to establish goals for each department. It was pointed out in an earlier unit of instruction entitled "Employee-Employer Relationships", that employees need to know what is expected of them. In this sense goals can be referred to as standards, especially for employees having departmental control functions.

Point out to the business operator that the communication of departmental goals to employees may be the best means of achieving them.

Part IV. Summary

A. Departmentalization is primarily viewed as a controlling function of the business.

B. The listing of departmental contributions to the whole business can aid the operator in the evaluation and reorganization of the business.

C. Departmental goals are a logical extension of family and business goals.

Part V. At-The-Business Instruction

Assist the business operator to identify, if possible, problem departments. Discuss the desirability of major changes in the business which would aid in the achievement of family and business goals.

If the business operator has not established departmental goals, assist in this effort.

Part VI. Resources

Overhead Projector
Transparency and Handout of Appendix A
Transparency and Handout of Appendix B (Three Per Student)
Chalkboard, Chalk, and Eraser

Part VII. References

A. References Cited

1. Sisk, Henry L., Management and Organization, 2nd Edition, South-Western Publishing Co., Cincinnati, 1973.

2. Niswonger, C. Rollin and Philip E. Fess, Accounting Principles, 10th Edition, Southwestern Publishing Co., Cincinnati, 1969.

B. Other References

Broom, H.N. and Justin G. Longenecker, Small Business Management, Fourth Edition, Southwestern Publishing Co., Cincinnati, 1975.

Part VIII. Appendices

A. Sample Business Departmental Model - Profit and Loss Statement

B. Sample Business Departmental Model - Profit and Loss Statement (Worksheet)

Appendix A

Sample Business

Departmental Model - Profit and Loss Statement

DEPARTMENTS	Total	1	2	3	4	5	6
Income							
Net Sales	$153,203	34850	32693	32230	37049	14685	1696
Cost of Goods Sold	$ 92396	21655	19920	20371	24925	5525	--
Gross Profit	$ 60807	13195	12773	11859	12124	9160	1696
Gross Profit %	40%	38%	39%	37%	33%	62%	100%
Total Expenses	$ 29344	4794	5780	4794	4794	4994	4190
Net Operating Profit (or Loss)	$ 31463	8401	6993	7065	7330	4168	(2494)
Profit Margin		24%	21%	22%	20%	28%	(147%)
Other Business Income	$ 1145						
Total Business Income	$ 32608						

Department No.		Departmental Name
1	.01	Bedroom
2	.02	Livingroom/Dining Room
3	.03	Kitchen
4	.04	Miscellaneous
5	.05	Used
6	.06	Truck (Service)

Appendix B

Sample Business

Departmental Model - Profit and Loss Statement

DEPARTMENTS	Total	1	2	3	4	5	6
Income							
Net Sales							
Cost of Goods Sold							
Gross Profit							
Gross Profit %							
Total Expenses							
Net Operating Profit (or Loss)							
Profit Margin							
Other Business Income							
Total Business Income							

Department No.	Departmental Name
1	
2	
3	
4	
5	
6	

Year III--Unit 4

WHAT DO TWO YEARS OF RECORDS MEAN?

Part I. Student Objectives

A. Utilizing a comparative analysis format to show the previous and current years' capital investment, the business operator will be able to identify trends and changes within his/her business.

B. Utilizing a comparative analysis format to show the previous and current years' financial efficiency factors and ratios, the business operator will be able to identify trends and compare the factors and ratios against established business goals and industry standards.

C. Based on the activities indicated in objectives A and B, the business operator will be able to make the decision to retain or revise business and family goals.

Part II. Transition of Units

The previous unit covered departmental contributions to the whole business and the issue of departmental goals. The desirability of major business changes was discussed.

This unit will utilize the previous two years of business records to plot and graph major comparison points.

The following unit will use a comparative analysis approach to look at expense factors in the business in an effort to more effectively use the existing situation.

Part III. Lesson

Attention Focuser

The completion and analysis of two years of records may be compared to the front and rear sights on a rifle. The rear sight (first year's records) will tell you the general direction you are aiming. The front sight (second year records) allows you to center more specifically on where you are aiming (future projections.).

KEY QUESTION 1. Does the second year record tell more than the first?

1. Increased experience makes some records more likely to be reliable.
    a. Inventories may be more accurate.
    b. Expense allocations may be more complete through a more thorough use of the recommended chart of accounts.
    c. Departmental allocations may be developed to a more usable stage.

2. Value of two consecutive years' records.
    a. Unusual economic or business pressures may be evened out.
    b. Changes may become evident.
    c. Trends will begin to be evident.

Suggested Teaching Strategy

Discuss the points listed above. Ask for additional reasons from the students why their second year record may tell more than the first.

KEY QUESTION 2. What does a comparison of capital investment from previous years show?

1. Changes in assets.
2. Changes in liabilities.
3. Change in total net worth.

Suggested Teaching Strategy

Have each business family fill in their figures on Appendix A, Comparison of Capital Investment. There are actually three comparisons because the beginning inventory of the first year's record is also the ending inventory of the previous year. The business part of these figures ties directly to the ratios at the bottom of the yearly balance sheet, Table 4.

Personal assets and liabilities are included. For most small businesses, this area is closely connected to the profitability of the business operation and its general financial condition. Trends or changes in the personal area may affect future business goals. The instructor should be sure the students recognize this connection.

KEY QUESTION 3. What do two years of major financial indicators show, and how is it related to future goals?

Suggested Teaching Strategy

Have each business family complete Appendix B, Two Years of Major Financial Indicators. If goal statements are available, have the students translate them to dollar or percentage figures for the next year goals column.

It will probably be necessary to review many of the indicators and to show again how they are calculated. Most of the ratios were dealt with in earlier units. Discuss how many of the items are related to each other. Use industry or trade association data if available for comparison. Have students compare the two years of actual indicators to their goals. Are the goals realistic based on actual performance?

KEY QUESTION 4. Do two years of records indicate there should be a change in business and personal goals?

Suggested Teaching Strategy

Business families may not have goals established in all of the areas listed on Appendix B. For those areas where goals are substantially different from the actual figures, ask the students if they have justification for this difference.

It may be desirable at this time to have the students look deeper into the business analysis to the income and expense statement. All possible areas of justifying goal differences should be explored.

Conclude this unit by pointing out that each year of analysis becomes more important than the last because of the accumulation of data. Business and family goals will be put in a more realistic light with this accumulation of data.

Part IV. Summary

A. Comparison of two or three years of capital investment data are essential to understanding the potential of the basic business structure.

B. Comparison of the major financial indicators for two years within the business, and to industry averages if available, can help to point out strengths and weaknesses within the business.

C. The accumulation of comparative data will provide a basis for retaining or changing business and family goals.

Part V. At-The-Business Instruction

Look for trends in the business. Be alert for consistent improvements in the major financial indicators. Help relate the two years of analyses to plans the business family has for organizational change. Help compile a list of general management practices that may need to be reviewed.

Part VI. Resources

Overhead Projector
Transparency and Handouts of Appendices A and B
Chalkboard, Chalk and Eraser
The Two Prior Annual Business Analyses of the Students
Students' Goals Statements

Part VII. References

Persons, Edgar et al., Small Business Management: Curriculum, Volume III, Division of Agricultural Education, University of Minnesota, St. Paul, 1976.

Part VIII. Appendices

A. Comparison of Capital Investment

B. Two Years of Major Financial Indicators

Appendix A

COMPARISON OF CAPITAL INVESTMENT

ASSET CATEGORY	2nd Yr. Prior	Previous Year	Current Year
Cash On Hand & In Bank - Bus.			
Accounts Receivable - Bus.			
Notes Receivable - Bus.			
Merchandise Inventory - Bus.			
Other Current Assets - Bus.			
Bare Land - Bus.			
Buildings - Bus.			
Equip. & Fixtures - Bus.			
Vehicles - Bus.			
TOTAL BUSINESS ASSETS			
Land & Buildings - Pers.			
Other Non-Business Assets			
TOTAL PERSONAL ASSETS			
TOTAL ASSETS			
Current Liabilities - Bus.			
Long-Term Liabilities - Bus.			
TOTAL BUSINESS LIABILITIES			
TOTAL PERSONAL LIABILITIES			
TOTAL LIABILITIES			
TOTAL NET WORTH - BUS. & PERS.			
CHANGE IN TOTAL NET WORTH			

Appendix B

TWO YEARS OF MAJOR FINANCIAL INDICATORS

			ACTUAL				GOALS	
Table	Line		Year Previous	%	This Year	%	Next Year	%
1.	475	Gross Income-Sales & Services						
1.	A	Gross Expenses						
1.	699	Net Operating Income or Profit						
2.	RLM	Return to Oper. Labor & Mgt.						
2.	CLM	Return to Cap. Family Labor and Management						
7.	B	Average Business Investment						
7.	W	* Return on Business Investment						
7.	M	Inventory Turnover						
7.	O	Receivable Turnover						
7.	P	Collection Period						
7.	R	Net Oper. Profit to Net Sales						
7.	S	Net Sales to Owner's Equity						
7.	T	Net Sales to Avg. Inventory						
7.	U	Net Sales to Working Capital						
7.	V	Return Per Hour on Operator and Unpaid Family Labor						

* Return on Business Investment is not a true figure. The figure is calculated by dividing the business net profit by the average business investment. The figure shown thus gives a return on business investment based upon the return to capital, family labor and management. A true return on investment figure would require that net profit be reduced by the value of family labor and management.

Year III--Unit 5

EVALUATING OVERHEAD AND GENERAL BUSINESS COSTS

Part I. Student Objectives

A. Utilizing a comparative income and expense statement, the student will be able to identify trends in income and expenditures and to tell how they relate to business profit.

B. Utilizing an example of operating expense control within a business to increase profit, the student will be able to tell how this form of control could be utilized in his/her own business.

C. Given examples of an operating statement with a high gross margin and one with a low gross margin and an opportunity to discuss them, the student will be able to identify the influence of operating expenses on net profit in each example.

Part II. Transition of Units

The previous unit utilized a comparative analysis format to study the past two years of capital investments and major financial indicators.

This unit will use a comparative analysis format to look at expense factors in the business in an effort to use more effectively the existing business investment.

The following unit will look at taking advantage of strong points and eliminating or minimizing weak points at the departmental level.

Part III. Lesson

Attention Focuser

Ask all of the students to write a list of items (expenses) which they or other people continue to keep that aren't used or needed. Examples might include credit cards with a yearly membership, specialized insurances or service contracts, services of friends or relatives, etc. After a few minutes, develop a list of these items on the chalkboard. Discuss briefly the cost of these items as opposed to their economic or intrinsic values. Try to stress the point that all expense items need to be evaluated periodically.

KEY QUESTION 1. What does a comparison of previous income and expense statements show?

> "A program of expense reduction, superimposed upon one of expense control, is invaluable if it can be achieved without reduction in sales volume, deletion of customer services, or loss of operating efficiency. Most business executives and management consultants will admit that a five percent or greater reduction in expenses could be achieved by almost any business. Thus, the small firm has the opportunity to reduce expenses as well as to control them.

"Expense reduction, if accomplished without loss of efficiency, makes possible price reductions or profit expansion, or both." (Broom & Longenecker, p. 375)

1. Income trends
2. Expense trends
3. Realistic data for projection studies
4. Isolation of items to aid in locating reducible expenses

Suggested Teaching Strategy

Have each business family complete the data on Appendix A utilizing their previous two years' business analyses. If they have projected or budgeted data, complete the projected year column, and justify any significant changes in the comment column. Get as complete a breakdown as possible.

If quarterly or monthly statements are available, trends will become evident much earlier than allowed with only a year-end statement. As you guide the students in examining their comparative statement, have them indicate items that are of a fixed nature and are not controllable on a short term basis.

Each expense item should be examined individually. Have students look at delivery service costs versus owning their own vehicle, if it applies. Other combinations of expenses might be viewed with alternative resource utilization in mind.

KEY QUESTION 2. How can controlling operating expenses affect net profit?

Suggested Teaching Strategy

Refer to Year III--Unit 8, Appendices C and E for discussion content. Show a transparency of Appendix E (after having read appendix C and being familiar with the detailed planning and rationale behind the expenditure reductions) and discuss the overall changes in expenditures. Unit 8 is a long, complex illustration of business reorganization centered around expense reduction.

Do not dwell on the fine points of this key question; state that it will be seen again in Unit 8.

KEY QUESTION 3. What is the relative effect of expenditures on profit in businesses with varying gross margin percentages?

1. Retail Businesses

   a. High cost of goods sold
   b. Low gross margin
   c. Low total expense

2. Service Oriented Businesses

   a. Low cost of goods (services) sold
   b. High gross margin
   c. High total expenses (especially in labor category)

Suggested Teaching Strategy

Utilize two overhead projectors to show transparencies of Appendix B (both income and expense statements) in a side-by-side arrangement. Brown Furniture represents a retail business with a medium to low gross margin, while Adams Electric is basically a service business and has a high gross margin.

Trace each statement on an item-by-item basis to show the several differences. An obvious area of difference is in labor costs. Labor for Adams Electric is about three times greater than that of Brown Furniture if one includes the labor calculated in cost of goods sold.

Another area is the difference in rent expense. The alternative to renting is ownership. What kind of ownership costs would appear if rent were eliminated? Three SBA Small Marketer's Aids, Numbers 130, 138, and 146 treat the subject of expense reduction from varying points of view, and should be consulted. The subject of control and reduction of expenses receives a thorough coverage in Broom and Longenecker, Small Business Management, Fourth Edition, pages 372-376. Consider what improvements will more effectively use the existing investment.

Part IV. Summary

A. Comparative Income and Expense Statements can be utilized to identify trends.

B. Expense control and/or reduction is an essential element in maintaining a profit structure.

Part VI. At-The-Business Instruction

Discuss the material covered in the class relative to locating reducible expenses. Go over the comparative income and expense worksheet in an effort to identify and discuss trends. Ask the businessperson to consider future changes in this area.

Part VI. Resources

2 Overhead Projectors
Chalkboard, Chalk, Eraser
Transparencies and Handouts of Appendices A and B
Students' Two Prior Business Analyses
Students' Goals Statements
Transparency of SBM Volume III--Year III--Unit 8, Appendix E

Part VII. References

A. References Cited

1. Broom, H.N. and Justin Longenecker, Small Business Management, Fourth Edition, South-Western Publishing Co., Cincinnati, 1975.

2. Persons, Edgar et al., Small Business Management Curriculum, Volume III, Division of Agricultural Education, University of Minnesota, St. Paul, 1976.

B. Other References

1. SBA Small Marketers Aids No. 130, "Analyze Your Records to Reduce Costs" by Alfred B. Abraham, U.S. Government Printing Office, Washington, D.C., April 1974 Reprint.
2. SBA Small Marketers Aids No. 138, "Sweeping Profit Out the Back Door" by Frank J. Komenda, U.S. Government Printing Office, Washington, D.C., July 1969.
3. SBA Small Marketers Aids No. 146, "Budgeting in a Small Service Firm" by Phyllis A. Barker, U.S. Government Printing Office, Washington, D.C., August 1973 Reprint.

Part VIII. Appendices

A. Comparative Income and Expense Statement

B. Income and Expense Statement - Brown Furniture

Appendix A

COMPARATIVE INCOME AND EXPENSE STATEMENT

LINE	ACCT. TITLE	ACCT. #	2ND YEAR PRIOR 19__ ACTUAL	%	PREVIOUS YEAR 19__ ACTUAL	%	PROJECTED YEAR 19__ ACTUAL	%	PROJECTED JUSTIFICATION COMMENTS
1	NET SALES	475							
2	C.G.S.	598							
3	GROSS MARG.	599							
4	OFF. SAL.	608							
5	FAM. WAGES	609							
6	WAGES-SAL.	610							
7	PAYROLL TAX.	611							
8	ADVERTISING	612							
9	HEAT	613							
10	ELECTRICITY	614							
11	WATER	615							
12	TELEPHONE	616							
13	INSURANCE	617							
14	INTEREST	618							
15	REPAIRS & M.	620							
16	GAS, OIL & GR.	623							
17	LEGAL & ACCT.	624							
18	PROP. TAX	625							
19	CONTRIB.	626							
20	SHOP EXP.	627							
21	OFF. EXP.	628							
22	ENT. & PROM.	629							
23	DUES & SUBS.	630							
24	LICENSES	631							
25	TRAVEL & CON.	632							
26	DEPR.	634							
27	BAD DEBTS	638							
28	RENT EXP.	639							
29	CASH S/L	640							
30	MISC.	641							
31	DELIVERY	642							
32	POSTAGE	643							
33	SELLING EXP.	644							
34	EMPLOYEES BEN.	645							
35	TRASH & REM.	646							
36	BREAKAGE	647							
37	COLLECTION	648							
38	BANK CHG.	649							
39	SUPPLIES	650							
40									
41	TOTAL EXP.	698							
42	NET OP. PROF.	699							
43	OTHER INC.	492							
44	OTHER EXP.								
45	NET PROFIT	397							

Appendix B

23-00-000-001
03/15/76

BROWN FURNITURE
YEAR ENDING 12/31/75

TABLE 2.1 INCOME AND EXPENSE STATEMENT - BUSINESS ONLY

400.	INCOME				RATIO
421.	MERCHANDISE SALES			$ 151,507	98.89
460.	CUSTOMER LABOR			1,696	1.11
475.	NET SALES OF GOODS + SERVICES			$ 153,203 *	100.00
500.	COST OF GOODS OR SERVICES SOLD				
121.	BEGINNING INVENTORY		$ 29,610		19.33
521.	MERCHANDISE PURCHASED		84,098		54.89
550.	FREIGHT IN COSTS		1,213		.79
A.	GOODS OR SERVICES AVAILABLE		$ 114,921 *		75.01
121.	ENDING INVENTORY		22,525		14.70
598.	COST OF GOODS OR SERVICES SOLD			$ 92,396 *	60.31
599.	GROSS PROFIT FROM SALES			$ 60,807 *	39.69
600.	EXPENSES		$		
609.	PAID FAMILY LABOR		500		.33
610.	SALARIES & WAGES		13,770		8.99
611.	PAYROLL TAXES		1,388		.91
612.	ADVERTISING		600		.39
613.	HEAT		680		.44
614.	ELECTRICITY		369		.24
616.	TELEPHONE		165		.11
617.	INSURANCE		850		.55
618.	INTEREST		1,456		.95
619.	REPAIR + MAINT. LAND		140		.09
620.	REPAIR + MAINT. BUILDINGS		907		.59
621.	REPAIR + MAINT. EQUIP. & FIXT.		185		.12
622.	REPAIR + MAINT. VEHICLES		385		.25
623.	GAS, OIL + GREASE		1,037		.68
624.	LEGAL + ACCOUNTING		283		.18
625.	PROPERTY TAXES		1,664		1.09
631.	LICENSES		193		.13
635.	DEPR BUILDINGS	$ 1,480			.97
636.	DEPR EQUIP + FIXT.	$ 644			.42
637.	DEPR VEHICLES	$ 930			.61
634.	DEPRECIATION TOTAL		3,054		1.99
639.	RENT		1,500		.98
650.	SUPPLIES		218		.14
698.	TOTAL EXPENSES + DEDUCTIONS			$ 29,344 *	19.15
699.	NET OPERATING PROFIT			$ 31,463 *	20.54
B.	OTHER BUSINESS INCOME			600	.39
481.	RENTAL INCOME			545	.36
492.	OTHER				
397.	NET PROFIT			$ 32,608	21.28

SIGNATURE

Appendix B (Cont.)

23-00-000-002
03/18/76

ADAMS ELECTRIC
YEAR ENDING 12/31/75

TABLE 2.1 INCOME AND EXPENSE STATEMENT - BUSINESS ONLY

					RATIO
400.	INCOME				
421.	MERCHANDISE			$ 82,558	53.15
460.	CUSTOMER LABOR			$ 44,994	28.96
472.	INTERNAL PARTS			$ 27,800	17.89
475.	NET SALES OF GOODS & SERVICES			$ 155,352 *	100.00
500.	COST OF GOODS OR SERVICES SOLD				
121.	BEGINNING INVENTORY		$ 21,246		13.68
521.	MERCHANDISE PURCHASED		50,770		32.68
550.	FREIGHT IN COSTS		1,863		1.20
561.	SUBLET LABOR		2,082		1.34
570.	COST OF LABOR		12,916		8.31
A.	GOODS OR SERVICES AVAILABLE		88,877 *		57.21
121.	ENDING INVENTORY		34,500		22.21
598.	COST OF GOODS OR SERVICES SOLD			$ 54,377 *	35.00
599.	GROSS PROFIT FROM SALES			$ 100,975 *	65.00
600.	EXPENSES				
609.	PAID FAMILY LABOR		$ 5,780		3.72
610.	SALARIES & WAGES		13,600		8.75
611.	PAYROLL TAXES		1,977		1.27
612.	ADVERTISING		2,490		1.60
613.	HEAT		2,238		1.44
614.	ELECTRICITY		1,640		1.06
616.	TELEPHONE		920		.59
617.	INSURANCE		2,622		1.69
618.	INTEREST		3,356		2.16
621.	REPAIR + MAINT. - EQUIP & FIXT.		2,342		1.51
622.	REPAIR + MAINT. - VEHICLES		4,482		2.89
623.	GAS, OIL & GREASE		4,692		3.02
624.	LEGAL & ACCOUNTING		984		.63
627.	SHOP EXPENSE		1,894		1.22
629.	ENTERTAINMENT & PROMOTION		1,100		.71
632.	TRAVEL & CONVENTION		1,800		1.16
633.	POLICY ADJUSTMENT		950		.61
636.	DEPR. - EQUIP & FIXT.	$ 1,350			.87
637.	DEPR. - VEHICLES	3,858			2.48
634.	DEPRECIATION TOTAL		5,208		3.35
639.	RENT		9,720		6.26
650.	SUPPLIES		556		.36
698.	TOTAL EXPENSES & DEDUCTIONS			$ 68,351 *	44.00
699.	NET OPERATING PROFIT			32,624 *	21.00
B.	OTHER BUSINESS INCOME				
397.	NET PROFIT			$ 32,624 *	21.00

SIGNATURE

Year III--Unit 6

EVALUATING THE MAJOR DEPARTMENTS

Part I. Student Objectives

A. Utilizing a major departmental Comparative Income and Expense Statement, the student will be able to identify strong and weak points within departments.

B. Utilizing an Evaluation of Major Departments Worksheet, the student will be able to develop an action plan for strengthening strong points and eliminating weak points.

Part II. Transition of Units

The previous unit used a comparative analysis format to aid in a program of controlling and reducing expenses.

This unit will utilize analysis data to identify strong and weak points within major departments and to assist in creating an action plan for improvements.

The following unit will look at the customer service departments and, with the aid of two analyses, at the management decisions that may be made.

Part III. Lesson

Attention Focuser

Utilize a bunch of bananas to illustrate the relationship of each banana (major department) to the whole bunch (whole business). Try to use a bunch that has varying sizes and colors in order to show that not all bananas (major departments) are alike. It should be pointed out that while each banana (major department) appears to be individual in nature, each is connected to the whole bunch (whole business).

KEY QUESTION 1. How can major departmental comparison income and expense statements be used to identify strong and weak points within departments?

Suggested Teaching Strategy

Show a transparency and hand out copies of the Comparative Income and Expense Statement (Appendix A of the previous unit of instruction). Have each student complete it for each major department in his/her business. Complete as much of the data on the statement as possible from previous analyses. Percentages should be included wherever possible. The data found at the bottom of each departmental Table 9 should be added to the back, or on a separate form.

The major departments are the business profit makers. To identify the sources of strong and weak points, each business must be broken down in departments. One might refer to them as income and expense centers. It is difficult to use comparative data from sources outside of the individual business; thus the accumulation of departmental analyses is important.

As in the previous unit, students should try to identify income or expense trends. Comparing similar departments over a two-year period may help to identify strong and weak points in each, particularly if one is more successful than the other. While this may be a tedious, time-consuming exercise, it forces an in-depth look at the total department structure and performance.

KEY QUESTION 2. How can an Evaluation of Major Departments Worksheet be used to develop an action plan?

Solutions to problems are best arrived at by a systematic analysis and evaluation of the problem. It helps to start by identifying and writing down the problems (weak points and strong points). Then state what has already been done and what we can do. This system relies on a data base found primarily in the business analysis and from the knowledge possessed by the student and instructor.

Suggested Teaching Strategy

Start with a brief discussion about problem solving and about limits of effectiveness. Issues such as the manager-to-employee ratio of 1:7 being the general top limit of effectiveness should be covered. Hand out copies of Appendix A, show a transparency of it, and discuss the items briefly. Have each business family complete the worksheet. As they are working on its completion, circulate among them to answer questions or to give advice. When most or all have completed the worksheet, ask if any students would like to discuss any of the items with the entire class. As the instructor, you may have noticed some items common to several businesses and can start the discussion by a general reference to the common problem without identifying the individuals concerned.

This unit is relatively short. It relies heavily upon prior class work and the individual situations of the students. The instructor will need to supplement the unit with material most beneficial to the specific class being instructed in the area of departmentalization. The material used, and ideas generated in this unit will be further developed in the following units.

Part IV. Summary

A. Departmental income and expense statements can aid in identifying strong and weak points.

B. Departmental action plans (organizational or re-organization) start with identifying and stating the problems.

Part V. At-The-Business Instruction

It is at the business where the most complete discussion of departments can take place. The physical layout and overall relationship of one department to the next can be studied together with the detailed business analyses. Try to get the business family to add to and to refine the worksheet (Appendix A). Discuss the specific ratings they gave to the items in part 3 on the worksheet. What can or will they do to improve their ratio in this area?

Part VI. Resources

Overhead Projector
Transparency and Handouts of Appendix A of this unit
Transparency and Handouts of Appendix A of Year III--Unit 5

Part VII. References

A. References Cited

Persons, Edgar et al., Small Business Management Curriculum, Volume III, Division of Agricultural Education, University of Minnesota, St. Paul, 1976.

B. Other References

1. SBA Small Marketers Aids No. 130, "Analyze Your Records to Reduce Costs" by Alfred B. Abraham, U.S. Government Printing Office, Washington, D.C., April 1974 Reprint.

2. SBA Small Marketers Aids No. 138, "Sweeping Profit Out the Back Door" by Frank J. Komenda, U.S. Government Printing Office, Washington, D.C., July 1969.

3. SBA Small Marketers Aids No. 146, "Budgeting in a Small Service Firm" by Phyllis A. Barker, U.S. Government Printing Office, Washington, D.C., August 1973 Reprint.

Part VIII. Appendices

A. Evaluation of Major Departments Worksheet

3.40

Appendix A

Name______________________________
Date______________________________

"Evaluation of major Departments" Worksheet

1. What are the strong points of Department ____________________?

    a. What have we done to take advantage of these strong points?

    b. What can we do?

2. What are the weak points of Department______________________?

    a. What have we done to strengthen or eliminate the weak points?

    b. What can we do?

3. EVALUATION OF MAJOR DEPARTMENTS

	Weak	Satisfactory	Very Good
Volume of business			
Departmental organization			
Recordkeeping system			
Budgeting			
Inventory system			
Cash flow			
Merchandising			
Advertising			
Timeliness			
Labor efficiency			
Mechanization costs			
Statement of goals			

4. Changes in operations, building or equipment additions that your analysis report omitted or indicated should not be done:

5. Unusual circumstances in last year's departmental analysis that would tend to distort data from a true average picture of the department (inventory errors, supplier problems, depressed economy, etc.):

Year III--Unit 7

EVALUATING CUSTOMER SERVICE DEPARTMENTS

Part I. Student Objectives

A. Utilizing a comparative analysis of income and expense statement, the student will be able to identify strong and weak points within the service departments.

B. Given written material describing budgeting and customer confidence in service firms and an opportunity to discuss how these firms are different (and similar) to customer service departments, the student will be able to identify non-economic strong and weak points of his/her customer service departments.

Part II. Transition of Units

The previous unit utilized analysis data to identify strong and weak points within major departments. Identifying and stating the problems were the beginning of departmental action plans.

This unit will use two years of analyses data to aid in making management decisions regarding the future of the service departments.

The following unit will use a step-by-step procedure to show how a business can reorganize its operation to maximize income without additional investment or debt.

Part III. Lesson

Attention Focuser

"Some businessmen are surprised when their business declines. They wonder what is wrong. Later the business closes. Here is one philosophy of management which will prevent your ever closing. Manufacturers say, 'Business is a mechanical process.' Wholesalers and retailers say, 'Business is a merchandising process.' Both are partly right as to their role in the economy. Both would be entirely right if they also said, 'Business is a social process.'

"...Business is like Abraham Lincoln described democracy--'By the people, of the people, and for the people.' It is disciplined usefulness. It is the art of making friends." (White, p. 69)

Relate this quotation to the service aspect of customer service departments.

KEY QUESTION 1. How do service (customer) departments differ from service businesses?

Suggested Teaching Strategy

Refer to SBM, Year II, Unit 9, Key Question 1 for a general outline differentiating the service categories. Review the categories, examples *and operations on the chalkboard. It is important to cover the revenue producing versus non-revenue producing appearance these departments may assume. The instructor may wish to review the entirety of Year II, Unit 9 with the class.*

KEY QUESTION 2. How can a comparative study of service departments help identify strong and weak points?

Suggested Teaching Strategy

Handout copies of Appendix A from SBM, Year III, Unit 5 and have each student complete the statement (if they have a customer service department). Many of the customer service departments will not be revenue producing. Even those that are revenue producing may not be profitable. The decision to keep these kinds of departments obviously doesn't deal with their direct contribution to profit. It is important for the businessperson to know what these departments are costing if the loss is to be recovered through increased sales from other departments or by increasing prices.

KEY QUESTION 3. How do service firms differ from customer service departments, and how can we use this knowledge to evaluate non-economic strong and weak points?

1. Service Firms:

    a. "Each firm in the service category is by definition a *service* business. It exists in order to render some specific service to individuals or to business firms. Any products made or sold are merely incidental to its primary objective of customer service." (Broom and Longenecker, p. 489)

    b. Service firms are managed for a profit.

2. Customer Service Departments:

    a. "Seven out of ten merchants believe that, by the end of the 1980's, 20% of the sales volume of general merchandise stores will be generated by new, personalized customer services made possible by new information technology and visual display techniques.

    "New services may indeed represent potential new profits for retailers, but there is a question as to what the customer can legitimately expect in the way of traditional, merchandise-related store services.

    "Three out of four retailers believe that by the early 1980's significantly more consumers will be willing to pay a higher markup in order to get more personal service and a wider assortment of unique and individualized merchandise. Retailers say this change in consumer expectations will require each store to define its special niche more carefully." (Bogart, p. 32.)

b. "Services do cost money and are justified only on the basis of customer goodwill and patronage." (Broom and Longenecker, p. 466)

Suggested Teaching Strategy

Reproduce portions of Small Marketers Aids Nos. 128 and 146 (specifically identified in references) dealing with non-economic aspects of the service business. Discuss the differences between service firms and customer service departments as listed under this Key Question. Let the students use the reproductions to aid the discussion of differences and similarities. Try to get the students to relate the subject matter to their own customer service departments in an effort to further identify strong and weak points, especially those that are non-economic.

Special Note: The instructor should be alert to the nature of the following three units of instruction. If time permits a brief introduction to the idea of "Profit Maximizing" as covered in Units 8, 9 and 10 should be given to the students.

Part IV. Summary

A. Comparative income and expense statements can aid in the evaluation of customer service departments.

B. Customer service departments exist primarily for goodwill and increased customer patronage reasons.

Part V. At-The-Business Instruction

Work with the student on determining the future of his/her customer service department.

Encourage attendance at the next three classes dealing with profit maximization. Ask leading questions to start the student seriously thinking about the subject.

Part VI. Resources

Overhead Projector
Transparency of SBM Year III, Unit 5, Appendix A
SBM Year II, Unit 9, Key Question 1
Reproductions of SBA's Small Marketers Aids Nos. 128 and 146

Part VII. References

A. References Cited

1. Bogart, Leo, "The Future of Retailing," Harvard Business Review, Vol. 51, No. 6, November-December, 1973.

2. Broom, H.N. and Justin K. Longenecker, Small Business Management, South-Western Publishing Company, Cincinnati, 1975.

3. Persons, Edgar et al., Small Business Management--Volume III, Year II--Unit 9 and Year III--Unit 5, Division of Agricultural Education, University of Minnesota, St. Paul, 1976.

4. White, L. T., Strengthening Small Business Management, Edited by Joseph C. Schabacker, Washington, D.C., U.S. Government Printing Office, 1971.

B. Other References

1. SBA Small Business Bibliography No. 15, "Recordkeeping Systems" (Small Store and Service Trade), by Nathan H. Olshan, Washington, D.C., U.S. Government Printing Office, September 1966 Revision.

2. SBA Small Marketers Aids No. 128, "Building Customer Confidence in Your Service Shop" by Robert K. Otterbourg, Washington, D.C., U.S. Government Printing Office, May 1974 Reprint.

3. SBA Small Marketers Aids No. 133, "Can You Afford Delivery Service?" by Gerald B. Halverson, Washington, D.C., U.S. Government Printing Office, May 1968.

4. SBA Small Marketers Aids No. 146, "Budgeting in a Small Service Firm," by Phyllis Barker, Washington, D.C., U.S. Government Printing Office, August 1973 Reprint.

Part VIII. Appendices--none

Year III--Unit 8

MAXIMIZING INCOME THROUGH REORGANIZING VARIABLE OPERATING EXPENSES AND PRICING

Part I. Student Objectives

A. Given the case study of the Interstate Motel, the student will be able to recount the steps necessary for sound decision making in the organization process in order to effectively maximize business profits and to relate these procedures in his own business reorganization efforts.

B. Given the case study of the Interstate Motel, the student will learn to recognize the need and be able to make comparative analyses, determine the alternatives, gather relevant information, and do feasibility projections in reorganizing his business to maximize profits.

C. Given the case study of the Interstate Motel, the student will be able to determine the possible effect that analyzing and reorganizing his business' operating expenses, advertising direction, and price changes could have in maximizing his business profits without cost.

Part II. Transition of Units

The previous unit evaluated general business costs from which we can now pinpoint possible areas where reorganization of operations might provide more profit.

Previous units have provided records that are necessary in a business' attempt to maximize income. In this unit a step procedure will be used to show how a business can reorganize its operation to maximize income without additional investment or debt.

This unit and those that follow are "what it's all about" -- making more money from your business. The next unit explores maximizing income through more debt liability.

Part III. Lesson

Attention Focuser

Illustrate on the board the effect of a 5 cent supply cost reduction per occupied room by eliminating in-room stationery in a 100 unit motel with a 75% occupancy rate. Rooms occupied, 27,375 per year, multiplied by 05¢ = $1,268.75 increased profits.

Show the effect of a minute reduction in the average time it takes for maids earning $2.50 per hour to clean a room. One minute cost saving of 4.166 cents multiplied by rooms cleaned, 27,375, = $1.140.00 increased profits.

Show the effect of a 1% increase in price on a $20.00 room. Twenty cents multiplied by 27,375, occupied rooms, equals $5,475.00 increased profit.

KEY QUESTION 1. What are some of the purposes or objectives for reorganizing a business?

Examples:

1. Cut operating expenses.
2. Increase the size of business.
3. Decrease the size of business.
4. Become more competent.
5. Increase sales volume.
6. Lighten the owner's workload.
7. Take in new partner(s) or eliminate old partner(s) -- change business structure.

Suggested Teaching Strategy

Develop a list on the board from student input by asking them why they themselves would want to reorganize their own business.

Summarize the individual responses by stating that the underlying reason for the reorganization of a business is to maximize business profits, which will be the objective of this and the next two units.

Key question 2. What are some of the alternative courses of action to increase profits through operation without increased capital investment or incurring debt?

Example 1:

1. Reduce labor costs
2. Reduce supply costs
3. Reduce advertising costs
4. Reduce taxes
5. Reduce maintenance costs
6. Reduce inventory costs
7. Reduce interest costs
8. Eliminate costs by departments etc.

Example 2:

1. Increase prices
2. Decrease prices
3. Increase percentage of market
4. Expand market area
5. Offer more products
6. Offer different products
7. Increase sales staff if warranted, etc.

Suggested Teaching Strategy

Put 2 headings on the board: 1) Ways to reduce variable costs, 2) Ways to increase sales volume. Then from the students, develop a list for each heading.

Discuss the effect each alternative has as to quality and quantity. What are the short and long-term side effects of each on the over-all credibility of the business?

KEY QUESTION 3. How do you determine the need and the relevant information for reorganizing the operations of a business?

Examples

1. Poor profitability situation.
2. Overburden of accounts receivable with heavy delinquency.
3. Sales dropping or stalemated.
4. Heavy outdated inventory accumulation through poor turnover.
5. Inability to meet customer demand.
6. Too heavy a tax burden.
7. Fixed assets out of proportion to business volume.

Suggested Teaching Strategy

Utilize the business analysis and records to determine the business situation and performance in this determination. Here is where a comparative analysis must be made to the industry as a whole and to similar successful businesses. Use the "Barometer of Small Business" put out by the Accounting Corporation of America for the past year and Dun & Bradstreet's "Key Business Ratios" as your comparative guides. More depth comparative figures may also be obtained through associations, manufacturers and local accounting firms. Key indicators are usually profit margins, net profits on net sales, current assets to current debt, net sales to inventory, and the percentage of cost of sales, advertising, labor, etc.

KEY QUESTION 4. What is the procedure used to reorganize any phase of the business?

Suggested Teaching Strategy

The steps are the same as for those used in the decision making process because this is exactly what you are doing -- making a major decision.

Show transparency of steps used in reorganizing process from appendix.

Pass out copies of the complete case study in the appendix to the class. Go through it pointing out each step that was taken according to procedure for each of the two situations.

Make and show transparencies of Exhibits "A" and "B". Go over projected results of reorganization noting each change realized and the resulting effects in this case study.

Relate the entire procedure to their business and assign them the task of making a similar reorganization study of their business. Point out that results are not always positive as they were in this study case.

Part IV. Summary

A. The essential elements of any business reorganization are past records of the business and good "bench marks" from similar businesses.

B. Feasible projections of the possible results from business reorganization are possible when a sound step by step plan is followed.

C. Maximizing the business' income is generally the primary objective of the business reorganization efforts and in many cases can be accomplished without capital expenditure.

Part V. At-The-Business Instruction

Assist in the development of the steps in the process of the reorganization of the student's business. Help him to zero in on specific areas that show a need for some reorganization effort using reliable comparisons. Analyze the projection results with him but do not make the decisions.

Part VI. Resources

Transparencies of the 8 steps of Reorganization, Exhibits "A" and "B"
Handouts of appendices in their entirety
Copies of Dun & Bradstreet's "Key Business Ratios"

Part VII. References

1. Accounting Corporation of America, Barometer of Small Business, Research Department, 1929 First Avenue, San Diego, California 92112, 1975.

2. Cohan, Avery B., Financial Decision Making -- Theory and Practice, Prentice Hall, Inc., Englewood Cliffs, New Jersey, 1972.

3. Dun & Bradstreet, Inc., Key Business Ratios, Business Economics Department, 99 Church St., New York, N.Y. 10007, 1975

4. Gibson, James F. and W. Warren Haynes, Accounting in Small Business Decisions, University of Kentucky Press, Lexington, 1963.

5. Harper, Donald V., Price Policy and Procedure, Harcourt, Brace and World, Inc., The Harbrace Series in Business and Economics, 1966.

6. Kopulos, Gordon, How a Budget Chain Minimizes Operating Costs for Its Motels, Motel/Motor Inn Journal, Temple, Texas, November, 1974.

7. Motel/Motor Inn Journal, 1974 Annual Financial Report, Box 769, Temple, Texas 76501, July, 1975.

Part VIII. Appendices

A. Case Study

B. Steps in the Reorganization Process

C. Steps in the Reorganization Process of the Interstate Motel; Situation A: Costs

D. Steps in the Reorganization Process of the Interstate Motel: Situation B: Pricing and Advertising

E. Steps in the Reorganization Process of the Interstate Motel: Exhibit A: Comparative Analysis and Feasibility

F. Steps in the Reorganization Process of the Interstate Motel; Exhibit B: Projected Operations

Appendix A

ILLUSTRATION OF MAXIMIZING INCOME THROUGH REORGANIZATION OF OPERATING COSTS, PRICING AND ADVERTISING

Case Study

The owner of the Interstate Motel, a 100 unit facility, is operating very marginally even though the owner-operator is underpaying himself for his service as the manager. He has an opportunity to sell out without a loss to a large budget chain but he would then be without a business or a job. He likes the business and would like to continue and eventually be able to sell for a nice profit. To make continuing the business feasible, the business must somehow become a more profitable operation. Any kind of expansion is out of the question. He is now only operating at a 55% occupancy rate for the 100 units.

His motel is 7 years old. For the first 3 years his business was good and he had a 75 to 80% occupancy rate average. He is ideally located on the interstate highway at the main southern entry to a city of 190,000. The city is primarily industrial and is located on a main East-West route through a midwestern state, so his business is not very seasonal or completely dependent on tourists. It does fluctuate with the normal motel industry lag November through February. His was the first sizeable motel on the new freeway by the entrance to the city. Because his location was so good, four years ago two major chain motels, each with 200 rooms, were built practically next door. Since they have opened, his business has gone downhill to its present state of affairs.

Both these motels offer in-house bars and restaurants, swimming pools, saunas, and meeting facilities. He has none of these facilities but because of the pressure, he took his reserves and completely remodeled and refurnished his entire facility in the 5th and 6th years. He also put in all new color TV's and a direct dial phone system. His motel is now in tip-top shape and he has been instrumental in getting a new 24-hour family style chain restaurant to build right next door to him. It will open in about 60 days. With the advent of the new motels he also joined a national referral group that costs him 4% of the gross.

The problem is that none of his efforts is paying off with increased occupancy. His rooms are just as nice as those of the chains and his rate is $16 single/ $18 average while theirs are $18 single/ $20 average. Yet they have 75-80% occupancy and he has to be content with overflow.

The budget chain offer has started him thinking -- why do they want to buy his sinking ship? More facility costs like swimming pools or adding another restaurant and bar can't be in their minds as they do not go into that sort of thing. Certainly the added costs are beyond his means anyway so that is not the answer. They must know that they can operate more efficiently and cut expenses and someway increase the occupancy through price. If they can do it, why can't he do the same thing by studying their theory and practice? He decided to reorganize his operation on paper using budget cost comparisons that were readily available. He decided to set up complete projections and make a feasibility study on major changes that would be required.

With the analysis and study results completed, he should then be able to make the decision of whether or not he should sell. If the results are positive enough, he will then formulate a plan to carry out the reorganization.

Appendix B

STEPS IN THE REORGANIZATION PROCESS

1. Recognition of the need for reorganization.
2. Objectives of reorganization
3. Determination of alternative courses of action.
4. Assembly of and organization of relevant information.
5. Evaluation of each alternative (advantages and disadvantages).
6. Choice of one of the alternatives (the decision).
7. Implementing the decision.
8. Follow-up, control, and measure.

Appendix C

STEPS IN THE REORGANIZATION PROCESS OF THE INTERSTATE MOTEL

Situation A: Costs

A. Objective: To cut variable costs wherever possible using a budget motel industry guide post (Regal 8) and through reorganization, realize a savings of the maximum amount from the differential to help maximize income.

B. Alternative courses of action:

1. Continue to operate a very marginal business with only 2.1% profitability picture with a poor return for management labor.

2. Raise the price in the face of superior competition allowing no price differential.

3. Reorganize the variable costs of the operation to try to effect a savings without affecting service standards.

4. Cut service standards to reduce variable costs.

5. Sell out at neither a profit or a loss.

C. Assembly and organization of relevant information.

1. Comparative cost analysis to major budget chains -- main variable costs differentials:

Interstate	Regal 8	Percent Dif.
Maids at $1.50/room	Maids at $1.00/room	50%
Room supplies 35¢	Room supplies 20¢	33%
Laundry service $1.00/room	Laundry labor 15¢/room Supplies & replacement 15¢/room	70%

Total annual cost, 20,000 rooms occupied:

		Cost Dif.
Maids $30,000	Maids $20,000	$10,000
Supplies $7,000	Supplies $4,000	3,000
Laundry $20,000	Laundry $6,000	14,000
$57,000	$30,000	$27,000

2. Room supply comparative analysis: Items Furnished:

	Interstate	Cost		Regal 8	Cost
1.	Matches	2¢	1.	Matches	2¢
2.	Plastic glasses	4¢	2.	Plastic glasses	4¢
3.	Glass bag containers	3¢	3.	Saranwrap	1¢
4.	Toilet tissue	3¢	4.	Toilet tissue	3¢
5.	Kleenex	5¢	5.	(none)	
6.	Sanitary bags	3¢	6.	(none)	
7.	Toilet strips	2¢	7.	(none)	
8.	Handsoap 3/4 oz.	7¢	8.	Handsoap 1/2 oz.	4¢
9.	Maid cleaning supply	3¢	9.	Maid cleaning supply	6¢
		35¢			20¢

3. Laundry in house cost analysis:

Initial Investment		Financed
2 ea. commercial washer & dryer	$8,000	New account payable
Installation (plumbing & wiring)	$2,000	Established 4 year
Linens & towel purchase	$5,000	Deprec/amortization/interest
	$15,000	$4,800 per year
Estimated new operating costs	$5,000	
Equip. deprec/amort/interest	$4,800	Present laundry service:
Replacement/supplies per 20¢	$4,700	$1.00 per room average.
Increase Utilities	$1,500	
	$16,000	$23,725

It is further projected that as costs go down with volume that labor will only increase at the 15¢ per room cost. Replacement and supplies were set up at 20¢, because Regal 8's figure did not include all necessary supplies.

D. Evaluation of the alternatives:

Maid's Labor

1. Guarantee the minimum wage but allow $1.00 for each room cleaned: dismiss those that have to be paid minimum because of poor production.

2. Set up a bonus plan that would be based on time which would produce clean rooms for $1.00 or less. Scale the plan for a 10% bonus that would give the maids the union rate by setting the base pay 10% below scale. A 20% bonus would put their pay 10% over scale. Arrive at the amount of bonus by dividing the total number of minutes worked in a pay period by the number of clean rooms.

3. Try to effect partial reduction in costs through a less demanding bonus plan.

Advantages	Disadvantages
1. & 2 Meet the objective regardless of alternative	-- Might cause employee dissatisfaction
3. Only partially meets objective. Might be less objectional to employees.	-- Will cause turnover because all jobs become part-time
	-- Will require close quality checks by housekeeper

Supplies

1. Conforming costs completely to Regal 8 costs would eliminate: Kleenex, sanitary bags, and toilet strips. It would cut the size of the soap and give a different protective wrapper to the glasses.

2. Partially conforming costs to Regal 8 costs, including removal of some supplies.

3. Conforming only to non-removable items.

Advantages of each	Disadvantages
1. Saves the most cost: 15¢/room	1. Might seriously affect customer relations.
2. Could save considerable cost: 10¢/room.	2. Probably very little effect on customer relations.
3. Least amount of saving: 5¢/room	3. No effect on customer relations.

Laundry

1. In order to effect a change, the only alternative is to establish a complete laundry facility together with ownership of the linens.

Advantages	Disadvantages
1. In-house equip. & supplies will pay for themselves and still effect considerable cost saving which is the objective.	1. Requires some space
2. Better quality control.	2. More employees
3. Do not have to rely on 3rd party supply source.	3. Requires debt assumption
	4. Equipment responsibility

E. Choice of one of the alternatives:

1. Maids: The decision was made to use either of the first two alternatives because either one would guarantee maximum maid production of clean rooms at a cost of $1.00 which equals our guide post and cuts costs by 1/3 or $11,862.50 per year at 65% occupancy.

2. Supplies: The decision was made to cut off the supply of sanitary bags and toilet strips but to retain room Kleenex because of the possibility of a strong negative guest reaction. It was also decided to reduce the size of the soap and to change glass covers. These changes should not affect customer relations but would total a 10¢ per room saving or $2,372.50 per year at 65% occupancy.

3. Laundry: The decision was made to establish in-house laundry facilities and to purchase own linens. Total additional costs including finance interest results in an annual cost reduction of $7,725,00 over present operation.

Results: Potential cost saving of $21, 960.

F. Implementing the final decisions:

1. Insofar as the maids are concerned, because of 2 alternatives that both give the desired results, let the maids' staff vote their choice. This participation will soften their objections.

2. Set up a new room supply policy with the head housekeeper and make it effective as soon as present supply runs out.

3. Arrange 4 year finance and establish new laundry within budget projections.

G. Follow-up and control:

1. Stick to the operation plan

2. Monitor costs closely

3. Compute maid results each payroll period and other costs monthly to make sure the desired results are achieved. Immediately investigate any deviations of expense not planned.

Decision Summary

The analysis and projections clearly show that there could be considerable cost saving in each of the 3 areas studied. A total savings of $15,200 is feasible with a 65 % occupancy rate even after raising the owner-manager's annual pay from $7,000 to $12,000. The decisions are made to reorganize all 3 variable cost items and to take action immediately.

Appendix D

STEPS IN THE REORGANIZATION PROCESS OF THE INTERSTATE MOTEL

Situation B: Pricing & Advertising

A. Objective: To increase occupancy rate (sales) through pricing and advertising reorganization in order to maximize income.

B. Alternative courses of action:

1. Increase prices
2. Decrease prices
3. Increase advertising budget
4. Decrease advertising budget
5. Redirect advertising practices
6. Rename the motel

C. Assembly of and organization of relevant information:

1. Present situation as to price is that the base single rate now charged is $16.00 per night and that the immediate area competition is composed of two major chains who are charging $18.00 per night. Because doubles are $4.00 more, the average rates are $18 and $20 respectively. As was pointed out in the case study, the chains offer swimming pools, saunas, meeting rooms, and in-house food and beverage facilities whereas Interstate does not.

2. Present situation as to advertising and marketing is that the affiliation with a major referral group is costing $13,000 per year, but joining this affiliation has not stopped the downward trend of the occupancy rate to offset the major chain competition. Other advertising and promotion have remained basically the same since the start of the business with the bulk of the $8,000 expenditure going to billboards leading into the city.

3. Market situation: This shows that 65% of the area business is commercial in nature, i.e. the traveling man; 20% is family; and 15% is attributed to the schools and hospitals.

4. Regional & national surveys: Studies show that for a 100 unit motel the average rate of occupancy in 1974 was 70.32% and the profit was 11.78%. For the North Central States for all size motels, the occupancy rate was 65.44% and the profit was 15.91%. It is readily seen that Interstate is in trouble with a 55% occupancy rate and only 2.1% profit.

5. Regal 8 Study: This shows that their budget chain is operating at an 85-90% occupancy rate. In one dramatic example of what can be done, the owners of an existing 100 unit facility purchased in 1972 in Huntsville, Texas cut the price by 20%. Previously, occupancy was only 38%; in three months it more than doubled the rate to 78%. In 1973 the rate was 82% and today it is 97%.

6. Budget theory: The principles that guide budget operations such as Regal 8 are primarily location, price, and efficiency of operation. Location should be on an interstate highway, fairly close to a city of considerable size at a good entry point. There should not be a good budget operation in the immediate vicinity but there definitely should be one or more successfully operating major chains. There should also be a good family type restaurant immediately available. The price should be 25% under the major chain competition and be well identified in all signing.

7. Qualifications: It appears that Interstate meets the budget criteria as to location, particularly with a new family restaurant about to be opened. The operation can be made more efficient and a new pricing policy can be established.

D. Evaluation of each alternative.

Alternative	Advantages	Disadvantages
Price Increase	Situation points to none.	Would buy itself lower sales.
Price Decrease	Indicators are increased sales; would more than offset a substantial unit price reduction.	Might tend to cheapen the excellent accomodations offered. The lower cost might make some potential customers wary.
Advertising Increase	Usually somewhat effective to generate sales.	Present operation does not justify added expense.
Advertising Decrease	Would cut operating costs.	As such would only stimulate declining sales.
Redirect Advertising	If more effective, more sales are the result. Better utilization of expense dollars.	Could result in some loss of sales.
Name Change	Gets the budget idea across.	Cost of effecting change. Connotation might hurt.

1. It is decided to have a major price reduction of 17%. Reducing the present single rate of $16.00 to $12.90 will generate a $15.00 revenue average per occupied room. This is also 25% lower than the adjacent chains and meets the budget criteria. However, because of its midwest location with higher building costs and taxes, it cannot cut to the $10.00 rate offered by more southerly located budget motels. If is felt that this reduction is ample to attract the per diem traveling man who doesn't care about a pool or the convenience of the in-house food and beverage. Also it should attract the family who is on a budget and just can't afford the added $5.00 just to have a pool and the convenience. A short walk gives them the type of food they can afford.

2. It is also decided to redirect the advertising and to drop the referral group association because it has not done the job of even maintaining occupancy. Part of the $13,000 savings will be redirected by joining a low cost budget association and starting an intensified campaign to sell the new price. All billboards and advertising will feature luxury rooms for less and the price will be foremost. The premises identification sign will be greatly enlarged and will include the new single rate of $12.90 in big letters.

3. The decision is made to change the name to "Interstate Budget Motel". This will leave no doubt in the customers' minds of what is now offered. Inclusion of the word "budget" has been very successful for those who operate as such and is very important to effect a quick transition.

F. Implementing the decision:

1. Project the feasibility in a new budgeted operations statement as shown in Situation A.

2. Establish the necessary new policy to bring about the desired change.

3. Take the necessary reorganizational steps to operate according to projected schedule.

4. When possible, bring about the necessary changes immediately, once the decisions of direction have been made by a sound step process.

G. Follow-up and control: Evaluating and measuring the effectiveness of the decision.

1. Watch your sales figures daily and compare the performance to the prior year exact date.

2. Be prepared to adjust newly redirected advertising as it develops.

3. Survey your old customers and the new ones to determine impact and effectiveness.

4. Watch and record effect of each new development of your plan.

Decision Summary

The analysis and projections show that Interstate Motel should be renamed the Interstate Budget Motel and the entire budget motel concept should be adapted by reorganization. The decision is made to lower the price and redirect the entire advertising programs. Interstate will not be sold. It will undergo an extensive reorganization plan by its present owner to maximize its income.

Exhibit A Interstate Motel Operating Statement
(units available:36,500, units rented:55% 20,075)

Projected Operating Statement
(units rented: 65% 23,725)

Income: Room Revenue: $18.00 average	$364,950.00	Room Revenue $15.00 average	$355,875.00
Vending and other (after costs)	2,125.00	Vending and other	2,625.00
Total Income	$367,075.00	Total Income	$358,500.00

Operating Expenses:

	Amount	Percent	Amount	Percent	Net Change
Salaries & Wages	$66,000.00	18 %	$70,000.00	19.5%	+ $ 4,000.00
Payroll Taxes & Insurance	6,600.00	1.8	7,000.00	2.0	+ 400.00
Linen Replacement & Laundry Supply (20¢ per room)	(none)		4,700.00	1.3	+ 4,700.00
Laundry Service (approx $1 per rm)	20,000.00	5.4	(none)		- 20,000.00
Utilities	22,500.00	6.1	24,000.00	6.7	+ 500.00
Maintenance/Service & Repair	6,500.00	1.8	7,000.00	2.0	+ 500.00
Supplies (35¢ per room)	7,000.00	1.9	(25¢) 5,900.00	1.6	- 1,100.00
Telephone	10,000.00	2.7	10,000.00	2.8	(none)
Advertising & Promotion	8,000.00	2.2	12,000.00	3.3	+ 4,000.00
Referral & Endorsement Groups	13,000.00	3.5	(none)		- 13,000.00
TV - Leased	10,000.00	2.7	10,000.00	2.8	(none)
Misc. Operating Expenses	8,000.00	2.2	8,000.00	2.2	(none)
Laundry Equip. Dep/Amort 4 yr.	(none)		4,800.00	1.3	+ 4,800,00
Legal and Accounting	3,600.00	1.0	3,600.00	1.0	(none)
Insurance	3,600.00	1.0	3,600.00	1.0	(none)
Credit Card Discount & Bad Debt	3,600.00	1.0	3,600.00	1.0	(none)
	$189,400.00	51.3%	$174,200.00	48.6	- $15,200.00

Capital Expenses

	Amount	Percent	Amount	Percent
Taxes	$36,000.00	9.8%	$36,000.00	10.0%
Interest	$95,000.00	25.9%	91,000.00	25.4
Depr./Amort.	$40,000,00	10.9%	40,000.00	11.2
Total Capital Expense	$171,000.00	46.6	$167,000.00	46.6
Net Profit	7,675.00	2.1	17,300.00	4.8
Total Expenditure	$367,075.00	100 %	$358,500.00	100 %

Analysis: The projection is based on the national average for motel occupancy of 65%, since it was felt this would be the minumum projection based on the reorganization. The single rate of $12.90 will generate a $15.00 average revenue rate, a price cut of 17% over Interstate's previous rate and 25% below that of the adjacent chains. Major cost savings were realized by cutting variable expenses and by eliminating membership in the referral group. The savings from these steps and the reduction of $4,000 in forthcoming interest were utilized by a $5,000 increase to the manager's salary, $4,000 increase in advertising and a $6,625 increase in profit. Higher occupancy figures are projected in Exhibit "B".

3.59

Appendix F

Exhibit B

PROJECTED PROFIT & COSTS FOR 75% & 85% OCCUPANCY: INTERSTATE MOTEL

The additional operational costs for increased occupancy are as follows:

Wages		
Maid labor: 3,650 rooms @ $1	$3,650.00	
Laundry labor: 3,650 rooms @ 15¢	550.00	
Total Wages		$4,200.00
Payroll taxes & insurance: 10%		420.00
Linens replacement & supplies @ 20¢ per room		730.00
Utilities		500.00
Supplies @ 25¢ per room		900.00
Maintenance/ service repair		400.00
Credit Card Disc. & Bad Debts		350.00
Total Increased Operational Costs: 75% Occupancy		$7,500.00
Total Increased Operational Costs: 85% Occupancy		$15,000.00

Projected Profit:	75% Occupancy	85% Occupancy
Room Revenue ($15 Av.)	$410,625.00	$465,375.00
Less Operational Costs	- 174,200.00	- 174,200.00
Less Additional Expense Above	- 7,500.00	- 15,000.00
Less Capital Expense	- 167,000.00	- 167,000.00
Less Additional Taxes*	- 5,000.00	- 10,000.00
Net Profit	$ 56,925.00	$ 99,175.00

*The city uses capitalization approach in determining tax assessment.

Profitability: For 75% occupancy is 16.8% and for 85% occupancy 20.1%.

Analysis: All indicators show that if the Interstate Motel reorganizes to meet budget motel standards as to operation and pricing, an increase to a 75% occupancy rate is feasible the first year of operation. The years thereafter should be in the 85% range provided the present situation does not change as to competition and the desirability of its location.

Year III--Unit 9

MAXIMIZING INCOME THROUGH REORGANIZING WITH INCREASED INVESTMENT OF DEBT LIABILITY

Part I. Student Objectives

A. Given the case study of the Brown Furniture Co., the student will be able to determine the immediate and long term cost effect of debt assumption to his/her efforts of maximizing income through expansion without additional capital.

B. Given the case study of the Brown Furniture Co., the student will be able to reorganize his/her business with a long range plan or returns from maximizing his income through long term debt liability.

C. Given the case study of the Brown Furniture Co., the student will be able to determine the immediate and long range risks involved in increased debt assumption to maximize income.

Part II. Transition of Units

The previous unit developed the steps in the reorganization process used in maximizing income through the costs of operation and pricing.

The entire business analysis in Year II is based on the Brown Furniture Co. In this unit we use this analysis and its records of progress and current state of affairs to determine feasibility in a given business situation for investment of debt liability to maximize income through expanded facilities.

The next unit is the final way a business can reorganize to maximize income. This is through additional capital investment by ownership - present or planned. This form of expansion concludes the basic alternatives available to a business to maximize income. Combinations of these methods are also often used.

Part III. Lesson

Attention Focuser

The Indian who sold Manhattan for $24.00 was a sharp salesman. If he had put his $24 away at 6% compounded semi-annually, it would now be worth $9.5 billion and could buy most of the improved land back.

KEY QUESTION 1. What are the basic reasons a business would invest in debt liability as a way to maximize income?

Suggested Teaching Strategy

The students will undoubtedly come up with the answers to purchase inventory, operating equipment, or a new or expanded facility. Our concern in this unit is to explore the possibility of additional facilities for the Brown

Furniture Co. The steps in this reorganization process are exactly the same as for the preceding unit on variable operating expenses and pricing. The situation has changed but the objective to maximize income remains. Hand out copies of the case study and let the students read it. Ask for comments and discuss it in detail.

KEY QUESTION 2. What alternative courses of action does Mr. Brown have to expand other than Mr. Wilson's offer?

Examples:

1. Add on to his own building.
2. Sell and buy larger comparable space.
3. Sell and build larger new facility.
4. Sell and lease larger new facility.
5. Sell and lease larger comparable space.
6. Wait for price to possibly come down.
7. Make counter offer.

Suggested Teaching Strategy

Develop a list of alternatives on the board from class discussion. Do not erase. Show transparencies of Appendices D & E. Discuss present business situation compared to the industry average. Analyze Brown's key ratios that indicate possible expansion rational. Discuss which will change.

KEY QUESTION 3. What relevant information should Mr. Brown study to aid in his decision on reorganization?

Examples:

1. Competitive situation
2. Market situation
3. Building and lease costs
4. Finance availability
5. Finance costs to business
6. Additional ownership costs
7. Tax benefits
8. Lease comparison
9. Sales projection
10. Additional sales costs

Suggested Teaching Strategy

From students' discussion develop a list of relevant information that Mr. Brown should study. Hand out copies of Appendix B and let the students see if they developed the same alternatives and relevant information criteria.

Show transparency of Appendix C and discuss the effects of the possible purchase as are vividly shown in this summary statement of projected costs and increased sales.

KEY QUESTION 4. Why is there considerable risk in Brown's decision to purchase the Wilson property even at a reduced price?

Suggested Teaching Strategy

One of the major pitfalls of a business is "Too much capital going into fixed assets." Money used up in frozen assets that aren't necessary to your business is working capital that may not be available when you need it for either a crisis or an opportunity. Brown justifies his decision on the projection that the investment will more than pay for itself in additional sales -- but this is not guaranteed. It is not like trying to cut operating expenses where you have nothing to lose and everything to gain.

Give these 3 situations to bring home the point.

1. A fair coin will be tossed fairly. If a head appears, you will receive $5.00; a tail, nothing.
2. A coin whose characteristics you do not know will be tossed. You can call heads or tails. For a correct call you receive $5.00; incorrect, nothing.
3. Two evenly matched basketball teams are playing this Saturday. You will receive $5.00 if you pick the winner; otherwise, nothing.

How much would you pay for each gamble? Discuss relationship to risk.

Too much success is also a pitfall -- business being so good that you decide to expand -- but unplanned expansion can be ruinous. Discuss how Brown might be premature in his decision to expand.

KEY QUESTION 5. What arguments does Brown have to present to his banker to obtain the loan request?

Suggested Teaching Strategy

Show transparencies of Appendices F & G of these progressive financial statements (1974 and 1975). Discuss the significant growth points. Do the same with Appendices H & I on the balance sheet comparison.

Show transparencies of Appendix J, the Projected Financial Statement. Discuss and compare to Appendix C which summarizes the projection.

Remember that Brown's "track record" is by far the most important thing to the banker -- older property is never a choice mortgage even if it is judged by fair appraisal. Show transparencies of Measures of Brown's Business Efficiency and Total Net Worth, Appendices K and L. Examine as if class were the bank's loan committee.

Ask for a show of hands as to how many would have made Brown's decision based on the information available.

Part V. Summary

A. Assuming debt liability is considered a capital investment and a very costly one at today's interest rates.

B. Before a businessman commits himself and his company, he must carefully plan and take the necessary steps in the reorganization process. Gathering of all possible relevant information that has a bearing on the ability of the business to repay the debt is essential.

C. Projected effects on the possible business outcomes must be carefully studied with the element of risk in mind at all times.

D. You will live with a debt commitment for a long time and it is usually necessary to expand, but it can mean disaster as well as success.

Part V. At-The-Business Instruction

Go over the student's business analyses with him/her in a continued effort to find ways of maximizing profit. This unit suggests studying possibilities dealing with increasing debt liability. As in the previous unit the decision to reorganize must be left to the student. Possibly just planning steps with long range objectives in mind is as far as you can go. However, if the student has a definite area of interest, assist in working out a reorganization plan.

Part VI. Resources

Overhead Projector
Chalkboard
Handouts of Appendices A and B
Transparencies of Appendices C, D, E, F, G, H, I, J, K, L
Supply of Lined Paper and Pencils

Part VII. References

1. Dun & Bradstreet, Inc., Cost of Doing Business Partnerships and Proprietorships, Business Economics Department, 1975.

2. Dun & Bradstreet, Inc., Key Business Ratios, Business Economics Department, 1975.

3. Bevan, Kenneth William, The Use of Ratios in the Study of Business Fluctuations and Trends, The General Educational Trust of the Institute of Chartered Accountants in England and Wales, London, 1966.

4. Bierman, Harold, Jr. and Seymour Smidt, The Capital Budgeting Decision, McMillan Co., New York, 1974.

5. Rosenberg, Seymour L., Self-Analysis of Your Organization, American Management Associations, New York, 1974.

6. Kelley, Pearce C. and Kenneth Lawyer, Case Problems in Small Business Management, Prentice-Hall, Inc., New York, 1952.

7. Steinhoff, Dan, Small Business Management Fundamentals, McGraw-Hill Book Co., New York, 1974.

Part VIII. Appendices

A. Case Study: Brown Furniture Company

B. Steps in the Reorganization Process of the Brown Furniture Co.

C. Projected Addition Sales and Costs

D. Comparative Cost of Doing Business

E. Comparative Industry Key Ratios

F. Brown Furniture Co. 1974 Financial Statement

G. Brown Furniture Co. 1975 Financial Statement

H. Brown Furniture Co. 1974 Balance Sheet

I. Brown Furniture Co. 1975 Balance Sheet

J. Brown Furniture Co. Projected Financial Statement

K. Brown Furniture Co. Measures of Business Organization and Efficiency

L. Brown Furniture Co. Net Worth

3.66

Appendix A

CASE STUDY: BROWN FURNITURE COMPANY

The Wilson Clothing Company adjoins the Brown Furniture and a common wall is the only separation of the two businesses. Wilson has the advantage of being on the corner in this central main street location. Mr. Wilson has a chance to join a major chain with the stipulation that he build a new clothing center, tripling his present size. He therefore wants to sell his building and will not consider a lease because he needs the capital for his building project.

The Wilson building is 60' x 80' and the lot is 60' x 150', identical to the Brown building and lot. The property was originally built as one large building divided in the middle to house 2 businesses with apartments on the 2nd floor. It was eventually sold off as 2 separate parcels, and now each portion functions completely independently of the other as to heat, electricity, entrances, etc. The back of the Wilson property has a combination garage and warehouse, wood frame 30' x 40' separate building which he now leases to Brown.

Mr. Wilson has offered to sell Mr. Brown his portion of the building including the land and the warehouse-garage for $87,000. His breakdown of the asking price is based on an independent appraisal as follows:

Land 9,000 sq. ft @ $1.00	$9,000
Two story brick building 60' x 80'	
1st floor 4,800 sq. ft. @ $10.00	$48,000
2nd floor 4,800 sq. ft. @ $5.00	$24,000
One story wood frame building 30' x 40'	
1,200 sq. ft. @ $5.00/sq. ft.	$5,000
	$87,000

Wilson will allow 10 days for Brown to decide on a $2,000 thirty day option. If he options the property at the end of 10 days he has another 30 days to pay the $85,000 balance. When the title transaction has been completed, Wilson wants as a condition to the sale a 6 month lease at $400 per month to continue to occupy the first floor of the main building. Note: In 1965 Brown paid $52,860 for his property.

There are 2 apartments on the 2nd floor that Wilson rents out at $150/month each. At the conclusion of the sale Brown as the new landlord would receive these payments. He would also discontinue the lease payments of $125 per month to Wilson for the warehouse-garage. Wilson would be liable for the taxes due in the year of the sale.

Mr. Brown who is already cramped for space and does not have any room to expand his present business considers the offer. He would like to add a floor covering department and expand his very profitable used furniture department. However, he has not studied these possibilities in detail as to the space requirements and profit feasibility. Nor has he examined the effects of general expansion of his entire business. A business reorganization situation is now confronting him and he must make the vital decisions based on a sound analysis and projection.

Brown does not want to use any of his present cash reserves toward the possible property purchase. His study must not only convince him that it would be an excellent investment but it will have to convince a lender.

Appendix B

STEPS IN THE REORGANIZATION PROCESS OF THE BROWN FURNITURE CO.

A. Objective: To determine if the purchase of the Wilson Clothing Company property and the resulting business reorganization will feasibly project a sufficient profit to maximize income and justify the cost of the additional facility and debt liability.

B. Alternative courses of action:

1. Pass up the offer and continue the business in the space now occupied.
2. Add on to the present building toward the rear.
3. Try to sell own property in itself or jointly with Wilson and relocate.
4. Gamble that Wilson will have trouble selling as asking price and will have to reduce the price then considered.
5. Plan on building your own facility.
6. Try to lease the necessary square footage at a new location.
7. Make a counter offer based on findings.
8. Accept offer dependent on 100% financing and based on positive study results.

C. Assembly and organization of relevant information.

1. Competitive Situation: A mainstreet location is a questionable investment in an age when business is moving out of the downtown to the outlying major shopping centers. The immediate downtown area is relatively free of competition without any exclusive furniture dealer except Brown. The competition consists primarily of the catalog houses, discount stores, and big furniture warehouses in the outlying area. Competition is very keen in the overall market area, and the operators are large, work on volume discounts, and have huge displays.

2. Market Situation: Brown does not attempt to compete with the big operators in the business. He doesn't have space nor funds to mass display, warehouse, and advertise to be competitive. He must rely on low overhead, careful buying, orders from samples or his catalogs, and customers visiting his suppliers to make selections from their displays to be competitive in price. He has to sell service, reliability, and individual attention. He must also concentrate his efforts to the small immediate market area. His efforts are apparently working as he had his biggest sales, $153,200, and profit of $32,600 this past year.

3. Building and Lease Costs: Both are at an all time high, and construction alone would cost $25 per sq. ft. for an economical type building. Choice land near a major center or freeway is $1.50 per sq. ft., so a 10,000 sq. ft. facility on 30,000 sq. ft. of land would cost $295,000. The lease cost on a new facility would be $4 per sq. ft. and property comparable to what he now occupies would cost $2 per sq. ft. An addition to the back of the building would eliminate parking and would only save the land costs on new construction.

4. Finance Costs: Assuming Wilson's appraisal is acceptable to a lender and applicable to Brown's property, the situation without the additional building maintenance cost looks like this:

		Costs
Appraised value Wilson $87,000		
Similar value Brown $81,000	$168,000	
Loan value 75%	126,000	
15 year amortization per year		$ 8,333
1st year interest 9%		11,340
Less present lease cost		- 1,500
Less rent received		- 3,600
Less amortization present mortgage		- 3,400
Less interest 6% on present mortgage		- 1,588
Total per year costs new mortgage		$ 9,595

5. Loan Disbursement:

Wilson purchase	$87,000
Satisfy Brown mortgage	26,473
Remodeling fixtures & signs	12,527
Total new mortgage	$126,000

If the maximum mortgage value is realized on the property loan, there would be $12,527, less refinance charges, available for remodeling costs.

6. Additional Costs of Ownership: Projection figures must be adjusted for single ownership of both properties, with the additional building on Wilson property and apartments in Wilson building paying their own electricity. The similarity of the properties, Brown figures, will be a fairly accurate base for the projection.

Property taxes (actual Wilson)	$2,000.00
Insurance (25% adjustment)	637.50
Repairs & maintenance (land & buildings)	1,000.00
Heat & electricity (includes warehouse)	1,100.00
Total ownership costs	4,737.50
Total new mortgage costs	9,595.00
Additional annual projected cost total	$14,332.50

7. Tax Benefits: The new depreciation schedule on the total property remodeled value $180,000, fifteen year schedule, 25% salvage is $9,000 per year $750 per month. This is in comparison to the present building depreciation schedule of $1,480 per year or $123.33 per month. This would give Brown an additional $7,520 depreciation expense against his tax liability. Provided Brown's profit margin remains the same, we could project an estimated tax saving of 25% of the additional depreciation or $1,880 annually on his ordinary income.

8. Lease Comparison: Similar property can be leased for $2 per sq. ft. and the lessor is liable for taxes, $2,000, and insurance, $637.50, major repairs, 50% of total $500, making a total of $3,137.50. In addition to the lease cost, the lessee would have minor maintenance and repair, $500, plus heat and electricity, $1,100.

Lease costs 4800 sq. ft. @ $2		$9,600
Use costs		1,600
Net total annual lease space cost		$11,200
Ownership cost	$14,333	
Less equity gain	- 8,333	
Less tax saving	- 1,880	4,120
Ownership annual advantage		$7,080

9. Sales Projections: In order to justify the additional costs of the debt investment, sales increases must be realized to pay for these costs and also to give a reasonable return on the investment. The present profit margin will be used in our projections of increased sales to offset the costs. Regional industry figures show sales are directly related to display area and an increase such as this (100%) could result in a 20% increase in overall volume or $30,640 in sales.

Brown's demand for used furniture and his excellent profit margin (28%) indicate that the additional space and more sales emphasis on trade-ins could double this department. This is one area where the big competitors do not wish to be involved and there is a good untapped market. It also is Brown's most important key to increasing overall sales. An additional $15,000 net increase is estimated for this department.

A new floorcovering department, according to industry figures, should increase total sales by 25% provided installation is involved. This increase of $38,300 would bring the estimated projected total sales increase to $83,940 or a 55% increase. Carpet manufacturers point out that in more rural areas the floor covering department accounts for close to 40% of a furniture store's sales volume. According to their studies a business protects itself by this diversification; i.e. floor covering sales might be up during slow furniture sales.

10. Additional Sales Costs: This expansion will require another full-time $800 per month employee who has floor covering sales and installation experience. The advertising budget ($930 adjusted) would have to be doubled to develop the new floor covering department, increased emphasis on used furniture, and the expanded facility. This total additional annual expense of $10,530 will be included in the projected additional sales and costs shown in Appendix C. It should be noted that a significant amount of the new employee's cost will be returned by customer labor income from installing floor covering.

D. Evaluation of the alternatives:

1. Reject offer:

Advantages

No risk assumption.
No additional help needed.
Added costs could outweigh increased revenue and reduce present profit picture.
Overbalance in fixed assets.

Disadvantages

Expansion possibility at present location is lost.
Least expensive way to expand is lost.
Does not make room for son to enter business.
Loses tax advantage.

2. Build new larger facility:

Advantages

More desirable location possible.
Might increase sales considerably.

Disadvantages

High building costs.
Business volume does not warrant such costs.
Higher taxes per sq. ft.
New location could be less profitable.
Risk outweighs potential.
Finance would require additional capital.
Loss of personal housing.

3. Lease a larger similar facility:

Advantages

No risk assumption in ownership.
Direct expense.
Way to try expansion.
Mobility ease if necessary.
Provides lowest space cost compared to building or leasing new facility.

Disadvantages

Relocation sale problem.
No equity gain.
Dependent upon lease renewal and conditions.
Cost when equity is considered outweighs Wilson purchase.

4. Lease new facility:

Advantages

Location could increase sales.
Gives desired additional space.
Direct expense.

Disadvantages

Cost is not feasible with present volume.
Projections do not show feasibility.
Same as for other lease facility.

5. Gamble and wait for considerable price reduction:

Advantages	Disadvantages
Possibility of much lower investment debt.	Could lose opportunity to expand without added capital.
Lower annual costs.	Purchase of Wilson property shows best feasibility.
Less sales pressure to meet costs.	
Increase profit potential.	

6. Make the purchase as offered:

Advantages	Disadvantages
Offer is fairly priced.	Projects only a 3% profit margin.
Income property.	Element of risk.
Cuts warehouse rental expense.	Possibility of better price.
Gives business greater potential.	Requires key man to be hired.
Does not require relocation.	Additional overhead.
Does not require capital.	Larger inventory demand.
Tax saving potential.	
Equity investment.	
Makes potential room for son to join firm.	
Firm's growth warrants it.	
Location is doing well.	

7. Counter offer (10% less):

Advantages	Disadvantages
Initial investment saving.	Lowers own property value.
Lessens risk.	Loss of old 6% mortgage.
Annual interest saving.	
Easier to get financing.	
1% increase in profitability.	

E. Choice of one of the alternatives:

1. The business is doing very well at the present but Brown feels his potential is limited because of size. If he remains as is, his wholesale business is the only potential growth -- 3 major accounts which generated $13,173 in sales -- and he feels this could be greatly expanded, but the profit margins are small. He is still young, 45 years old, and he would like to build up the size of the business for his son. He feels he wants growth and this opportunity should provide that growth together with more profit potential.

2. Brown rules out leasing or building as not being feasible because of the comparative costs and the magnitude of the sales increase required to be successful. His lack of capital makes any kind of building practically impossible at this time.

3. He decides the study results are strong enough that he should actually accept the Wilson offer but that a counter offer has a good chance. He can point out that Wilson might be greatly delayed in trying to sell because of the poor market and money situation, and that Wilson will save realtor's cost by this direct sale. Brown asks for a 10% price reduction and $50 per month more on the 6 month lease because $450 is his cost. Although he is quite sure of financing because of his good business picture and "track record", he asks that the option money be returned if he is unable to secure financing.

F. Implementing the final decision (assuming acceptance):

1. Take the option.

2. Arrange the necessary financing.

3. Use discount on original price to pay off bank note.

4. Use the lease time to carefully plan remodeling, advertising, locating a key man, studying the floor covering business, and locating suppliers.

G. Follow-up and control:

1. Remodel new property first; then move in so present property can be remodeled without business interruption.

2. Live within remodeling budget.

3. Carefully budget new costs and sales projections.

4. Stick as close as possible to budget of costs.

5. Make every effort to realize necessary sales objectives.

Decision Summary: Brown Furniture did not have to risk this reorganization by expansion of its facility because it was doing very well with its present facility. Wilson's acceptance of the counter offer projects an increased profit of $3,399, not much margin for error. However, Brown wanted the potential that it afforded his business and there were other important factors particular to his ownership that weighed in his decision to take on the risk.

1. His age (45) left time to satisfy the new mortgage and continue to build the business.

2. He wanted to bring his son into the business.

3. This most feasible expansion opportunity might never present itself again.

4. He was currently successful at this location.

5. He was satisfied with his business and wanted to stay in it.

6. Customer labor charges for carpet installation could add as much as $4,000 to profit picture.

To a 55 or 60 year old man with no family, this would be a poor decision. For Brown it appears to be a fairly good decision.

Appendix C

PROJECTED ADDITIONAL SALES & COSTS

Sales Increases		
20% in Total Sales	$30,640	
Used Furniture Department	15,000	
New Floor Covering Department	38,300	
Total Additional Sales 55%	83,940	
Less Cost of Goods Sold 60%	- 50,364	
Total Gross		$33,576
Expense Increases		
Taxes	$ 2,000	
Insurance (Adjusted)	637	
Repairs & Maintenance (Land & Bldg.)	1,000	
Heat & Electricity	1,100	
Labor	9,600	
Payroll Cost 10%	960	
Advertising	1,260	
Vehicles (Repairs & Expense)	700	
Interest	11,340	
	$28,597	
Less Expense Decreases		
Rent	- 1,500	
Total	27,097	
Plus Depreciation Bldg. Increase	7,520	
Total Costs		- $34,617
		(1,041)
Other Income (Apartment Rent)		3,600
Profit Realized from Investment		$ 2,559

Note: Total Additional Debt $99,527. Profit Margin on Investment 3.05%.

Analysis: This projection shows that the investment does not compare to his present investment which gives Brown a 21% profit. However, doubling the physical size of a business does not justify doubling the business sales volume. The important thing from Brown's standpoint is that it gives him that potential. Since it projects some additional profit, it does serve to maximize present income, but the future effect on income is a very important consideration in this case.

Appendix D

COMPARATIVE COST OF DOING BUSINESS

	Brown Furniture	D & B Ave. Furniture	Difference (+ or -)
Cost of Goods Sold	60.31%	68.92%	- 8.61%
Merchandise Purchased	54.31	63.53	- 8.64
Labor	.33	3.10	+ 2.99
Supplies	.14	1.17	+ 1.03
Gross Margin	39.69	31.08	+ 8.61
Salaries & Wages	8.99	6.79	+ 2.20
Rent	.98	2.08	- 1.10
Interest	.95	.71	+ .24
Taxes	1.99	1.75	+ .24
Bad Debts	--	.35	- .35
Repairs	1.05	.45	+ .60
Depreciation	1.99	1.47	+ .52
Profit on Receipts	20.54	8.05	+ 12.49

Analysis: If labor and salaries were one item we would see Brown in line with the industry at 9.32% -- this is just a designation adjustment. A major item is that somehow Brown either pays less for merchandise or sells it for a higher cost or a combination of both. He must also be very efficient in operations and have a lower overhead. This reflects in his excellent profit margin compared to the industry as a whole. We must note that Operator Labor was not included in the expense items for Brown.

Appendix E

COMPARATIVE ANALYSIS OF BROWN'S RATIOS AND D & B KEY RATIOS

		Brown 1974	Brown 1975	Key
1.	Current Assets ÷ Current Debt (Solvency)	4.80	4.05	2.76
2.	Net Profit ÷ Net Sales (Profitability)	* 10.00	21.00	2.75
3.	Net Profit ÷ Net Worth (Profitability) (10% good)	* 55.71	64.29	8.16
4.	Net Profit ÷ Net Working Capital (Current Assets - Current Debts) Ave. Return on Capital Cushion for Investment Accounts Rec., Operations	* 57.84	69.89	8.18
5.	Net Sales ÷ Net Worth (Turnover of Invested Capital)	3.09	3.13	2.78
6.	Net Sales ÷ Net Working Capital (Turnover of Working Capital)	5.95	3.40	2.95
7.	Collection Period = Net Sales ÷ 365 = Ave. Daily Notes & Accts. Rec. = Ave. (Shouldn't be more than 10-15 days beyond term allowed)	10.45	10.58	97.00
8.	Net Sales ÷ Mdse. Inventory (Compares stock to sales)	5.04	5.88	4.80
9.	Fixed Assets ÷ Net Worth (Should not be over 75%)	117.00	63.03	11.90
10.	Current Debt ÷ Net Worth (Over 80% bad)	30.30	30.18	55.70
11.	Total Debt ÷ Net Worth (If over 100% creditors interest greater)	134.26	84.20	96.90
12.	Inventory ÷ Net Working Capital (Should not be over 80%)	116.25	50.00	66.40
13.	Current Debt ÷ Inventory (Unsold inventory to meet debt)	27.00	65.00	91.20
14.	Funded long term debt ÷ Net Working Capital (Should not be over 100%)	117.28	58.80	21.70

* Brown's Net Profit is not after taxes as is our industry key.

3.75

BUSINESS NAME Brown Furniture Co.

TABLE 2.1 INCOME AND EXPENSE STATEMENT - BUSINESS ONLY

CODE NO. ____________________

BUSINESS YEAR Jan. 1,74 - Dec. 31,74

400.	INCOME		
421.	MERCHANDISE SALES		130,043
441.	SECONDARY SALES		
460.	CUSTOMER LABOR		
461.	OUTSIDE LABOR		
462.	INTERNAL LABOR		
463.	WARRANTY LABOR		
472.	INTERNAL PARTS		
473.	WARRANTY PARTS		
475.	NET SALES OF GOODS & SERVICES		130,043
500.	COST OF GOODS OR SERVICES SOLD		
121.	BEGINNING INVENTORY	31,208	
521.	MDSE. PURCHASED	80,926	
541.	SECONDARY PURCHASES	-	
550.	FREIGHT IN COSTS	1,100	
561.	SUBLET LABOR	-	
570.	COST OF LABOR	-	
A.	GOODS OR SERVICES AVAILABLE	113,234	
121.	ENDING INVENTORY	29,610	
598.	COST OF GOODS OR SERVICES SOLD		86,624
599.	GROSS PROFIT FROM SALES		26,419
600.	EXPENSES		
609.	PAID FAMILY LABOR	300	
610.	SALARIES & WAGES	12,000	
611.	PAYROLL TAXES	1,150	
612.	ADVERTISING	475	
613.	HEAT	650	
614.	ELECTRICITY	270	
615.	WATER	-	
616.	TELEPHONE	140	
617.	INSURANCE	800	
618.	INTEREST	1,600	
619.	REPAIR & MAINT. - LAND	95	
620.	REPAIR & MAINT. - BUILDINGS	880	
621.	REPAIR & MAINT. - EQUIPMENT & FIX.	165	
622.	REPAIR & MAINT. - VEHICLES	400	
623.	GAS, OIL & GREASE	937	
624.	LEGAL & ACCOUNTING	319	
625.	PROPERTY TAXES	1,332	
626.	CONTRIBUTIONS & DONATIONS	-	
627.	SHOP EXPENSE	-	
628.	OFFICE EXPENSE	-	
629.	ENTERTAINMENT & PROMOTION	-	
630.	DUES & SUBSCRIPTIONS	-	
631.	LICENSES	176	

APPENDIX F (CONT.)

3.77

BUSINESS NAME Brown Furniture Co.

TABLE 2.1 CONTINUED

CODE NO. ______________________

BUSINESS YEAR Jan. 1, 74 - Dec. 31, 74

632.	TRAVEL & CONVENTION			
633.	POLICY ADJUSTMENT			
635.	DEPRECIATION - BUILDINGS	1,480		
636.	DEPRECIATION - EQUIP. & FIX.	630		
637.	DEPRECIATION - VEHICLES	1,070		
634.	DEPRECIATION TOTAL		3,180	
638.	BAD DEBTS			
639.	RENT		1,200	
640.	CASH SHORT/LONG			
641.	MISCELLANEOUS			
642.	DELIVERY			
643.	POSTAGE			
644.	SELLING EXPENSE			
645.	EMPLOYEE BENEFITS			
646.	TRASH & GARBAGE REMOVAL			
647.	BREAKAGE & SPOILAGE			
648.	COLLECTION EXPENSE			
649.	BANK CHARGES			
650.	SUPPLIES		350	
651.	OPEN ACCOUNT			
652.	OPEN ACCOUNT			
653.	OPEN ACCOUNT			
654.	OPEN ACCOUNT			
698.	TOTAL EXPENSES & DEDUCTIONS			26,419
699.	NET OPERATING PROFIT			20,000
B.	OTHER BUSINESS INCOME			
480.	INTEREST INCOME			
481.	RENTAL INCOME			
482.	ROYALTIES INCOME			
490.	PURCHASE DISCOUNTS			
491.	VOLUME DISCOUNTS			
492.	OTHER			
397.	NET PROFIT			20,000

SIGNATURE ______________________________________

APPENDIX G

3.78

BUSINESS NAME Brown Furniture

TABLE 2.1 INCOME AND EXPENSE STATEMENT - BUSINESS ONLY

CODE NO. 23-00-000-001

BUSINESS YEAR Jan. 1,75 - Dec. 31,75

400.	INCOME		
421.	MERCHANDISE SALES		151507
441.	SECONDARY SALES		--
460.	CUSTOMER LABOR		1696
461.	OUTSIDE LABOR		--
462.	INTERNAL LABOR		--
463.	WARRANTY LABOR		--
472.	INTERNAL PARTS		--
473.	WARRANTY PARTS		--
475.	NET SALES OF GOODS & SERVICES		153203
500.	COST OF GOODS OR SERVICES SOLD		
121.	BEGINNING INVENTORY	29610	
521.	MDSE. PURCHASED	84098	
541.	SECONDARY PURCHASES	--	
550.	FREIGHT IN COSTS	1213	
561.	SUBLET LABOR	--	
570.	COST OF LABOR	--	
A.	GOODS OR SERVICES AVAILABLE	114921	
121.	ENDING INVENTORY	22525	
598.	COST OF GOODS OR SERVICES SOLD		92396
599.	GROSS PROFIT FROM SALES		60807
600.	EXPENSES		
609.	PAID FAMILY LABOR	500	
610.	SALARIES & WAGES	13770	
611.	PAYROLL TAXES	1388	
612.	ADVERTISING	600	
613.	HEAT	680	
614.	ELECTRICITY	369	
615.	WATER	--	
616.	TELEPHONE	165	
617.	INSURANCE	850	
618.	INTEREST	1456	
619.	REPAIR & MAINT. - LAND	140	
620.	REPAIR & MAINT. - BUILDINGS	907	
621.	REPAIR & MAINT. - EQUIPMENT & FIX.	185	
622.	REPAIR & MAINT. - VEHICLES	385	
623.	GAS, OIL & GREASE	1037	
624.	LEGAL & ACCOUNTING	283	
625.	PROPERTY TAXES	1664	
626.	CONTRIBUTIONS & DONATIONS	--	
627.	SHOP EXPENSE	--	
628.	OFFICE EXPENSE	--	
629.	ENTERTAINMENT & PROMOTION	--	
630.	DUES & SUBSCRIPTIONS	--	
631.	LICENSES	193	

BUSINESS NAME Brown Furniture 3.79

TABLE 2.1 CONTINUED

CODE NO. 23-00-000-001

BUSINESS YEAR Jan. 1,75 - Dec. 31,75

632.	TRAVEL & CONVENTION		--	
633.	POLICY ADJUSTMENT		--	
635.	DEPRECIATION - BUILDINGS	1480		
636.	DEPRECIATION - EQUIP. & FIX.	644		
637.	DEPRECIATION - VEHICLES	930		
634.	DEPRECIATION TOTAL		3054	
638.	BAD DEBTS		--	
639.	RENT		1500	
640.	CASH SHORT/LONG		--	
641.	MISCELLANEOUS		--	
642.	DELIVERY		--	
643.	POSTAGE		--	
644.	SELLING EXPENSE		--	
645.	EMPLOYEE BENEFITS		--	
646.	TRASH & GARBAGE REMOVAL		--	
647.	BREAKAGE & SPOILAGE		--	
648.	COLLECTION EXPENSE		--	
649.	BANK CHARGES		--	
650.	SUPPLIES		218	
651.	OPEN ACCOUNT		--	
652.	OPEN ACCOUNT		--	
653.	OPEN ACCOUNT		--	
654.	OPEN ACCOUNT		--	
698.	TOTAL EXPENSES & DEDUCTIONS			29344
699.	NET OPERATING PROFIT			31463
B.	OTHER BUSINESS INCOME			
480.	INTEREST INCOME			600
481.	RENTAL INCOME			--
482.	ROYALTIES INCOME			--
490.	PURCHASE DISCOUNTS			--
491.	VOLUME DISCOUNTS			--
492.	OTHER			545
397.	NET PROFIT			32608

SIGNATURE ______________________

3.80

APPENDIX H

BUSINESS NAME Brown Furniture Co.

TABLE 4. BALANCE SHEET - BUSINESS ONLY

CODE NO. 23-00-000-00[illegible]

BUSINESS YEAR Jan. 1,74 - Dec. 31,74

		(A)	(B)	(C)	(D)
			BEGINNING		ENDING
A.	ASSETS				
100.	CURRENT ASSETS:				
101.	CASH IN BANK		3,275		2,925
102.	CASH - PETTY				
109.	ACCOUNTS REC. 0-30	680		802	
110.	ACCOUNTS REC. 30-60	325		105	
111.	ACCOUNTS REC. 60-90	27		43	
112.	ACCOUNTS REC. > 90	314		-	
108.	TOTAL A/R	1,346		950	
114.	ALL. FOR BAD DEBTS	-		-	
B.	NET A/R		1,346		950
115.	NOTES RECEIVABLE				
116.	OPEN				
121.	MDSE. INVENTORY		31,208		29,610
141.	SECONDARY MDSE. INV.				
161.	PREPAID INSURANCE				
162.	PREPAID TAXES				
163.	OPEN				
179.	TOTAL CURRENT ASSETS		35,829		33,485
180.	FIXED ASSETS:		REMAINING VALUE		REMAINING VALUE
181.	BARE LAND		3,000		3,000
182.	BUILDINGS	37,000		37,000	
183.	ACCUM. DEPR. BLDGS	13,320	23,680	14,800	22,200
184.	EQUIP. & FIXTURES	7,800		7,800	
185.	ACCUM. DEPR.-E & F	3,823	3,977	4,453	3,347
186.	VEHICLES	7,600		7,600	
187.	ACCUM DEPR-VEHICLES	4,230	3,370	5,300	2,300
190.	TOTAL FIXED ASSETS		34,027		30,847
199.	TOTAL ASSETS		69,856		64,332

3.81

TABLE 4. CONTINUED

(Brown Furniture Co.)

CODE NO. 23-00-000-001

BUSINESS YEAR Jan. 1,74 - Dec. 31,74

		(A)	(B) BEGINNING	(C)	(D) ENDING
C.	LIABILITIES				
200.	CURRENT LIABILITIES:				
209.	ACCT. PAY. 0-30				
210.	ACCT. PAY. 30-60				
211.	ACCT. PAY. 60-90				
212.	ACCT. PAY. > 90				
208.	TOTAL A/P		11,362		3,027
216.	NOTES PAY.-BANK		8,115		4,187
217.	NOTES PAY.-OTHER				
218.	ACCRUED INTEREST				
219.	OPEN				
220.	FED. & FICA PAY.		670		800
221.	STATE WITH. PAY.				
222.	FED. UNEMP. PAY.				
223.	STATE UNEMP. PAY.				
224.	STATE SALES TAX PAY.				
225.	PROPERTY TAX PAY.				
226.	OPEN				
250.	TOTAL CURR. LIAB.		20,147		8,014
260.	LONG-TERM LIABILITIES:				
261.	MORTGAGE PAY.		33,651		29,873
262.	INTERMED. LOANS				
263.	OPEN				
295.	TOTAL LONG-TERM LIAB.		33,651		29,873
299.	TOTAL LIABILITIES		53,798		37,887
300.	OWNERS EQUITY				
310.	CAPITAL ACCT.-OWNER		12,500		16,445
311.	CAPITAL ACCT.-OTHER				
312.	CAPITAL ACCT.-OTHER				
320.	DRAW ACCT.		10,022		10,000
321.	FED. & STATE EST. TAX				
396.	SUSPENSE				
397.	NET PROFIT		13,580		20,000
379.	TOTAL EQUITY		16,058		26,445
390.	TOTAL LIAB. EQUITY		69,856		64,332
D.	GAIN OR LOSS IN OWNERS EQUITY				10,387
E.	RATIO - CURRENT ASSETS/CURR. LIAB.		1.78		4.18
F.	RATIO - CURRENT LIAB./INVENTORY		.65		.27
G.	RATIO - FIXED ASSETS/OWNERS EQUITY		2.12		1.17
H.	RATIO - LAND & BLDGS/L-T LIAB.		.79		.84
I.	RATIO - TOTAL ASSETS/TOTAL LIAB.		1.30		1.70
J.	RATIO - TOTAL ASSETS/OWNERS EQUITY		4.35		2.43
K.	QUICK RATIO-CASH, A/R, ETC./CURR. LIAB.		.23		.48

SIGNATURE ____________________

BUSINESS NAME Brown Furniture

TABLE 4. BALANCE SHEET - BUSINESS ONLY

CODE NO. 23-00-000-001

BUSINESS YEAR Jan. 1, 75 - Dec. 31,75

		(A)	(B)	(C)	(D)
			BEGINNING		ENDING
A.	ASSETS				
100.	CURRENT ASSETS:				
101.	CASH IN BANK		2925		32821
102.	CASH - PETTY		--		--
109.	ACCOUNTS REC. 0-30	802		870	
110.	ACCOUNTS REC. 30-60	105		2489	
111.	ACCOUNTS REC. 60-90	43		202	
112.	ACCOUNTS REC. 90	-		884	
108.	TOTAL A/R	950		4445	
114.	ALL. FOR BAD DEBTS	-		-	
B.	NET A/R		950		4445
115.	NOTES RECEIVABLE		--		--
116.	OPEN		--		--
121.	MDSE. INVENTORY		29610		22525
141.	SECONDARY MDSE. INV.		--		--
161.	PREPAID INSURANCE		--		--
162.	PREPAID TAXES		--		--
163.	OPEN		--		--
179.	TOTAL CURRENT ASSETS		33485		59791
180.	FIXED ASSETS:		REMAINING VALUE		REMAINING VALUE
181.	BARE LAND		3000		3000
182.	BUILDINGS	37000		37000	
183.	ACCUM. DEPR. BLDGS	14800	22200	16280	20720
184.	EQUIP. & FIXTURES	7800		7800	
185.	ACCUM. DEPR.-E & F	4453	3347	5097	2703
186.	VEHICLES	7600		5400	
187.	ACCUM DEPR-VEHICLES	5300	2300	1430	3970
190.	TOTAL FIXED ASSETS		30847		30393
199.	TOTAL ASSETS		64332		90184

APPENDIX I (CONT.) TABLE 4. CONTINUED (Brown Furniture Co.) 3.83

CODE NO. 23-00-000-001

BUSINESS YEAR Jan. 1, 75 - Dec. 31,75

		(A)	(B) BEGINNING	(C)	(D) ENDING
C.	LIABILITIES				
200.	CURRENT LIABILITIES:				
209.	ACCT. PAY. 0-30	--		--	
210.	ACCT. PAY. 30-60	--		2536	
211.	ACCT. PAY. 60-90	--		--	
212.	ACCT. PAY. 90	--		--	
208.	TOTAL A/P		3027		2536
216.	NOTES PAY.-BANK		4187		11437
217.	NOTES PAY.-OTHER		--		--
218.	ACCRUED INTEREST		--		--
219.	OPEN		--		--
220.	FED. & FICA PAY.		800		800
221.	STATE WITH. PAY.		--		--
222.	FED. UNEMP. PAY.		--		--
223.	STATE UNEMP. PAY.		--		--
224.	STATE SALES TAX PAY.		--		--
225.	PROPERTY TAX PAY.		--		--
226.	OPEN		--		--
250.	TOTAL CURR. LIAB.		8014		14773
260.	LONG-TERM LIABILITIES:				
261.	MORTGAGE PAY.		29873		26473
262.	INTERMED. LOANS		--		--
263.	OPEN		--		--
295.	TOTAL LONG-TERM LIAB.		29873		26473
299.	TOTAL LIABILITIES		37887		41246
300.	OWNERS EQUITY				
310.	CAPITAL ACCT. - OWNER		16445		26445
311.	CAPITAL ACCT. - OTHER		--		--
312.	CAPITAL ACCT. - OTHER		--		--
320.	DRAW ACCT.		10000		9550
321.	FED. & STATE EST. TAX		--		
396.	SUSPENSE		--		(565)
397.	NET PROFIT		20000		32608
379.	TOTAL EQUITY		26445		48938
390.	TOTAL LIAB. EQUITY		64332		90184
D.	GAIN OR LOSS IN OWNERS EQUITY				22493
E.	RATIO - CURRENT ASSETS/CURR. LIAB.		4.18		4.05
F.	RATIO - CURRENT LIAB./INVENTORY		.27		.66
G.	RATIO - FIXED ASSETS/OWNERS EQUITY		1.17		.62
H.	RATIO - LAND & BLDGS/L-T LIAB.		.84		.90
I.	RATIO - TOTAL ASSETS/TOTAL LIAB.		1.70		2.19
J.	RATIO - TOTAL ASSETS/OWNERS EQUITY		2.43		1.84
K.	QUICK RATIO-CASH, A/R, ETC./CURR. LIAB.		.48		2.52

3.84

APPENDIX J

BUSINESS NAME Brown Furniture Co.

PROJECTED AFTER WILSON PROPERTY PURCHASE
TABLE 2.1 INCOME AND EXPENSE STATEMENT - BUSINESS ONLY

CODE NO. 23-00-000-001

400.	INCOME		
421.	MERCHANDISE SALES		235,447
441.	SECONDARY SALES		
460.	CUSTOMER LABOR		1,696
461.	OUTSIDE LABOR		
462.	INTERNAL LABOR		
463.	WARRANTY LABOR		
472.	INTERNAL PARTS		
473.	WARRANTY PARTS		
475.	NET SALES OF GOODS & SERVICES		$237,143
500.	COST OF GOODS OR SERVICES SOLD		
121.	BEGINNING INVENTORY	22,525	
521.	MDSE. PURCHASED (Adjusted 27%)	144,290	
541.	SECONDARY PURCHASES		
550.	FREIGHT IN COSTS	1,813	
561.	SUBLET LABOR		
570.	COST OF LABOR		
A.	GOODS OR SERVICES AVAILABLE	168,628	
121.	ENDING INVENTORY (Adjusted)	27,353	
598.	COST OF GOODS OR SERVICES SOLD		141,275
599.	GROSS PROFIT FROM SALES		95,868
600.	EXPENSES		
609.	PAID FAMILY LABOR	500	
610.	SALARIES & WAGES	23,370	
611.	PAYROLL TAXES	2,348	
612.	ADVERTISING	1,860	
613.	HEAT	1,480	
614.	ELECTRICITY	669	
615.	WATER		
616.	TELEPHONE	165	
617.	INSURANCE	1,487	
618.	INTEREST	12,796	
619.	REPAIR & MAINT. - LAND	240	
620.	REPAIR & MAINT. - BUILDINGS	1,807	
621.	REPAIR & MAINT. - EQUIPMENT & FIX.	185	
622.	REPAIR & MAINT. - VEHICLES	610	
623.	GAS, OIL & GREASE	1,512	
624.	LEGAL & ACCOUNTING	283	
625.	PROPERTY TAXES	3,664	
626.	CONTRIBUTIONS & DONATIONS		
627.	SHOP EXPENSE		
628.	OFFICE EXPENSE		
629.	ENTERTAINMENT & PROMOTION		
630.	DUES & SUBSCRIPTIONS		
631.	LICENSES	193	

BUSINESS NAME Brown Furniture Co.

PROJECTION
TABLE 2.1 CONTINUED

CODE NO. 23-00-000-001

632.	TRAVEL & CONVENTION			
633.	POLICY ADJUSTMENT			
635.	DEPRECIATION - BUILDINGS	9,000		
636.	DEPRECIATION - EQUIP. & FIX.	644		
637.	DEPRECIATION - VEHICLES	930		
634.	DEPRECIATION TOTAL		10,574	
638.	BAD DEBTS			
639.	RENT		1,500	
640.	CASH SHORT/LONG			
641.	MISCELLANEOUS			
642.	DELIVERY			
643.	POSTAGE			
644.	SELLING EXPENSE			
645.	EMPLOYEE BENEFITS			
646.	TRASH & GARBAGE REMOVAL			
647.	BREAKAGE & SPOILAGE			
648.	COLLECTION EXPENSE			
649.	BANK CHARGES			
650.	SUPPLIES		218	
651.	OPEN ACCOUNT			
652.	OPEN ACCOUNT			
653.	OPEN ACCOUNT			
654.	OPEN ACCOUNT			
698.	TOTAL EXPENSES & DEDUCTIONS			65,461
699.	NET OPERATING PROFIT			30,407
B.	OTHER BUSINESS INCOME			
480.	INTEREST INCOME			600
481.	RENTAL INCOME			3,600
482.	ROYALTIES INCOME			
490.	PURCHASE DISCOUNTS			
491.	VOLUME DISCOUNTS			
492.	OTHER			545
397.	NET PROFIT			35,152

PROFIT MARGIN 14.93%

SIGNATURE ____________________

APPENDIX K

BUSINESS NAME Brown Furniture

3.86

TABLE 7. MEASURES OF BUSINESS ORGANIZATION AND EFFICIENCY

CODE NO. 23-00-000-001

BUSINESS YEAR Jan. 1, 75 - Dec. 31, 75

A.	BUSINESS SIZE		
B.	AVERAGE BUSINESS INVESTMENT [(TOTAL ASSETS-BEGINNING + TOTAL ASSETS-END) ÷ 2]		$ 77258
C.	TOTAL GROSS MARGIN (NET SALES MINUS COST OF GOODS SOLD)		60807
D.	YEARLY WORKER EQUIVALENT (2000 HOURS PER WORKER)	3.5	
E.	LABOR EFFICIENCY		
F.	GROSS MARGIN PER WORKER (EQUIVALENT)		17373
G.	TOTAL BUSINESS INVESTMENT PER WORKER (EQUIVALENT)		22074
H.	OVERHEAD		
I.	TOTAL EXPENSES ÷ $1000 OF GROSS MARGIN		483
J.	TOTAL EXPENSES PER WORKER (EQUIVALENT)		8384
K.	TURNOVER		
L.	TOTAL GROSS MARGIN PER $1000 OF AVERAGE BUSINESS INVESTMENT		787
M.	INVENTORY TURNOVER (NET SALES ÷ YEAR END INV.)	6.80	
N.	CREDIT CONTROL		
O.	RECEIVABLE TURNOVER (NET SALES ÷ YEAR END A/R)	34.47	
P.	COLLECTION PERIOD [YEAR END A/R ÷ (NET SALES ÷ 360)]		10.45
Q.	RATIO ANALYSIS		
R.	NET OPERATING PROFIT TO NET SALES		21%
S.	NET SALES TO OWNERS EQUITY		3.13
T.	NET SALES TO AVERAGE INVENTORY		5.88
U.	NET SALES TO WORKING CAPITAL [NET SALES ÷ (YEAR END CURRENT ASSETS MINUS YEAR END CURRENT LIABILITIES)]		3.40
V.	RETURN PER HOUR ON OPERATOR & UNPAID FAMILY LABOR		$12.27
W.	RETURN ON BUSINESS INVESTMENT (NET OPERATING PROFIT ÷ AVERAGE BUSINESS INVESTMENT)		41%

BUSINESS NAME Brown Furniture

3.87

TABLE 5. NET WORTH

CODE NO. 23-00-000-001

BUSINESS YEAR Jan. 1,75 - Dec. 31,75

A.	BUSINESS ASSETS		
101.	CASH ON HAND & IN BANK (BUSINESS ONLY)	2925	32821
108.	TOTAL ACCOUNTS RECEIVABLE	950	4445
115.	NOTES RECEIVABLE	--	--
121.	MERCHANDISE INVENTORY	29610	22525
161.	OTHER CURRENT ASSETS	--	--
181.	BARE LAND	3000	3000
182.	BUILDINGS	22200	20720
184.	EQUIPMENT & FIXTURES	3347	2703
186.	VEHICLES	2300	3970
199.	TOTAL BUSINESS ASSETS	64332	90184
B.	PERSONAL ASSETS		
C.	LAND & BLDGS.	15860	15860
D.	OTHER NON-BUSINESS ASSETS	11935	12713
E.	TOTAL ASSETS	92127	118757
F.	BUSINESS LIABILITIES		
250.	CURRENT LIABILITIES	8014	14773
295.	LONG-TERM LIABILITIES	29873	26473
299.	TOTAL BUSINESS LIABILITIES	37887	41246
G.	PERSONAL LIABILITIES	1966	637
H.	TOTAL LIABILITIES	39853	41883
I.	TOTAL NET WORTH (BUSINESS & PERSONAL)	52274	76874
J.	CHANGE IN TOTAL NET WORTH		24600
RLM.	RETURN TO OPERATORS LABOR & MANAGEMENT		29663
CLM.	RETURN TO CAPITAL, FAMILY, LABOR & MANAGEMENT		32608
088.	NON-BUSINESS INCOME		2350
070.	TOTAL MONEY BORROWED (BUSINESS & PERSONAL)		15000
074.	TOTAL PAID ON DEBT (PRINCIPAL ONLY-BUSINESS & PERSONAL)		12479
K.	TOTAL HOUSEHOLD AND PERSONAL CASH EXPENSE		8826

Year III--Unit 10

MAXIMIZING INCOME THROUGH REORGANIZATION BY ADDITIONAL CAPITAL INVESTMENT

Part I. Student Objectives

A. Given a case study of the Jones Restaurant, the student will be able to analyze possible similar expansion of his/her business sales volume by increasing the size of the business through additional capital investment to maximize business income.

B. Given a case study of the Jones Restaurant, the student will be able to determine the effects of additional capital investment in the given situation and apply the projection analysis to his/her own business to maximize income.

C. Given a case study of the Jones Restaurant, the student will be able to evaluate the results of trading business ownership and changing business structure for investment capital in order to maximize income.

D. Given a case study of the Jones Restaurant, the student will be able to analyze and determine the effect of business structure reorganization as a possible tax advantage to maximize income.

E. Given a case study of the Jones Restaurant, the student will be able to recount the same steps in the reorganization process that are also essential for him/her to follow for sound planning and decision making as it relates to additional capital investment to maximize income.

Part II. Transition of Units

In the previous unit business expansion to maximize income was brought about with present ownership investment of capital through debt liability. It was evident in that unit that expansion requires some sort of investment which results in a certain amount of risk.

In this unit the risk factor is still present but instead of expanding wholely on increased debt, there is considerable capital investment made by a second party. As a result of this outside investment to effect the expansion, the basic business structure changes. The results of this change and the expansion have a powerful impact on this business situation as to potential and immediate return.

The effects of the step process in our efforts to reorganize to maximize income can be related to the next unit on site, building, and merchandise handling. These were prime considerations in our reorganization process and this impact will be realized in the next unit.

Part III. Lesson

Attention Focuser

Show transparency of Appendix L for the students to read. Relate this "far out" example to the essential of adequate investment capital to expand a business for any given reason. Insufficient capital to start or expand a business is the second biggest cause of failure.

KEY QUESTION 1. What are the indicators that prompt consideration of business expansion?

Examples:

1. Inability to meet customer demand.
2. Inefficient operation due to size and volume production.
3. Demands of a new product or service line.
4. New market potential such as a new factory in area.
5. Desire to expand and develop a new market area.
6. Present volume not justifying continued operation.

Suggested Teaching Strategy

Develop a list on the board through discussion on the question. Point out that our case study is prompted by a new product that continues to also increase sales of the regular offering. In this situation we will study the effect of a restaurant being granted an "on" sale liquor license. Pass out copies of case study of Jones Restaurant from Appendix A.

KEY QUESTION 2. What criteria in the form of relevant information should be studied to determine expansion feasibility?

Samples:

1. The present state of affairs and the trends of the business itself and the industry as a whole.
2. Availability and sources of capital for expansion.
3. Availability of key personnel to provide manpower.
4. Owner's capabilities and limitations to carry on an expansion.
5. Market potential surveys and projections based on sound data.
6. Cost and sales projections to determine earnings potential.
7. Implementation plan if expansion is the decision.
8. Detailed costs of the expansion and the new capital investment required.

Suggested Teaching Strategy

Develop a list from student discussion and answers to the question. Record on black board as specific items are brought out by students. Show transparencies of Appendices C & D. Hand out copies also. Go over the variations, noting that Jones' operation is certainly in line with industry averages even though he is a small operator. His costs of food are considerably lower probably because his is not a high priced menu.

While studying Appendix D, the Projection, examine the impact of liquor on sales at somewhat lower costs. Note also that table turnover is less but per ticket revenue really goes up -- both present greater volume potential. Though the business food capacity has doubled, a conservative 27.5% increase is projected. Because of the increased menu price there would be less than a 20% increase in actual customers. The size increase also notably reduced per chair costs and put him in line with the industry.

KEY QUESTION 3. What are the various ways to obtain additional capital investment for a business?

Samples:

1. Issue stock if a corporation.
2. Incorporate the business and sell stock privately to investors or to the public.
3. Form a partnerhsip with one or more individuals willing to invest in the business and be active or inactive.
4. Personal private loan from relative or friend.
5. Sell or mortgage personal assets to raise funds.
6. Use personal funds if they are available.

Suggested Teaching Strategy

Develop a list from answers to the question and student discussion. For the small businessman, going public with a stock issue is not realistic because of the costs involved. Generally he obtains additional capital through partnership and private investors. In our case study, for example, Mr. Jones contemplates forming a partnership to maintain the proprietorship advantages for the real estate, but a new operating corporation for the business itself. The operating corporation has important advantages with multiple ownership from a liability and flexability standpoint.

Show transparency of Appendix E showing how Jones projected his expansion and necessary financing. Point out that even though he has given up half his business, he has effected an expansion much to his personal advantage. His new share of the reorganized business maximized his earnings with a 20% increase, has given him more potential, has increased his investment, and has given him someone to share the risk and responsibility.

KEY QUESTION 4. What are some of the potential advantages other than maximizing income from increased capital investment for business expansion?

Suggested Teaching Strategy

Hand out copies of Appendix B of the steps taken in Jones' reorganization process for examination and study. As you discuss the analysis, note advantages and add to them if possible. Question the class members as to their decisions in Jones' situation. If they did not agree, what would they suggest? Ask how many are planning some form of future expansion of their business. Point out that the situation also involves a capital debt liability investment and that most often it is a combination such as in this situation.

KEY QUESTION 5. As a prospective capital investor in the restaurant business, what would you want to know prior to making the investment?

Examples:

1. Location potential.
2. Management "track record".
3. Investment requirements.
4. Business structure.
5. Liability exposure.
6. Industry growth and potential.
7. Typical profit for similar operations.
8. Major cost factors.
9. Typical operating statements from different types of restaurants.
10. Competitive situation.
11. Current business state of affairs.
12. Typical per seat costs.
13. Industry ratios.
14. Lease vs. ownership data.
15. Franchise possibilities and advantages.

Suggested Teaching Strategy

Develop a list from the students' contributions. The information a potential investor would like to know or should know seems endless. This points up the fact that an individual needs a multitude of facts and information about a specific business before investing. The business man himself needs the same guides before investing in his own business. Here are some examples of the types of information available in the food and beverage industry. Show transparencies of Appendices F, G, H, I, and J and briefly discuss their usefulness to the investor.

Part IV. Summary

A. Additional capital investment of cash or equivalent is usually the last resort in a business effort to maximize income. A businessman does not like to spend all his reserves and usually shouldn't. He also does not like the idea of cutting up the pie if it is a good one to raise the investment capital unless he absolutely has to in order to reorganize a necessary expansion. In either case the investment must project a satisfactory return to justify such an important step.

B. The capital investment is usually made to increase the size of the business facility, inventories that can't be financed, equipment to open a new facility or branch, product development, etc. It often combines with a certain amount of debt liability investment on the part of the company.

C. Capital investment usually requires reorganization and always demands careful planning. Outside capital often results in a change of the basic business structure such as from a sole proprietorship to a corporation. Like anything else, additional capital in itself is not a cure-all in itself and could very well be just "good money after bad."

Part V. At-The-Business Instruction

This unit deals with capital investment as a means of maximizing profit. Assist the student in taking a hard look at his/her business to determine the possibilities in this area. Efforts in this unit are tied closely to the preceding two units. Much of the information gained in those units will be useful when considering capital investment. It is possible that a combination of means may be used to maximize profit as you assist the student with reorganization plans.

Part VI. Resources

Transparencies of Appendices C through L
Handouts of Appendices A & B in their entirety and Appendices C,D, and E

Part VII. References

A. References Cited

National Restaurant Association, Review and Interpretation Section, N.R.A. News, 1974 and 1975 bi-monthly issues.

B. Other References

1. Dun & Bradstreet, Cost of Doing Business Corporations, Business and Economics Department, New York, 1974.
2. Laventhol & Horwath, Restaurant Operations, 1975 edition, Philadelphia.
3. National Restaurant Association, Financial Analysis of the Restaurant Industry, Chicago, 1963.
4. Smith, Frank J., Jr. & Ken Cooper, The Financial Management of Agribusiness Firms, University of Minnesota, Dept. of Agricultural & Applied Economics, 3rd edition, 1972.
5. Soloman, Kenneth F. and Norman Katz, Profitable Restaurant Management, Prentice-Hall, New York, 1974.
6. Spear, Mary Eleanor, Charting Statistics, McGraw-Hill, New York, 1952.

Part VIII. Appendices

A. Case Study

B. Steps in the Reorganization Process of the Jones Restaurant

C. Comparative Analysis of Cost & Earnings with Industry Averages

D. Projected Analysis of Costs & Earnings Compared to Industry Averages

E. Finance Analysis of Present & Projected Investment Based on New Capital & Debt Liability Investment to Expand Existing Facilities and Sales

F. NRA Predicts 10.7% Gain

G. Food Business Indicators

H. Sales Trends

I. Operating Statement Service Restaurant

J. Operating Statement - Typical Steak House

K. Analysis of Municipal Liquor Store Operations for 1974

L. "I Thought We Were Making Money?"

Permission of the publisher, the National Restaurant association, One IBM Plaza, Suite 2600, Chicago, Illinois 60611, has been granted to reprint the information in Appendices F, G, H, I, and J.

The information on the lower portion of Appendix F is being reprinted with permission of its publisher, the National Restaurant News, Two, Park Avenue, New York, New York 10016.

The sources are indicated on those pages.

Appendix A

ILLUSTRATION OF MAXIMIZING INCOME THROUGH REORGANIZATION BY ADDITIONAL CAPITAL INVESTMENT

Case Study

Mr. Jones has been granted a new license by the city to sell alcoholic beverages in his restaurant, provided his facility be expanded to seat a minimum of 100 patrons. Presently he has a 3,000 square foot wood frame building that is 10 years old and seats 50 patrons. He has 30,000 sq. ft. of property so the necessary area for building and parking is already owned by his business. The problem he faces is that he lacks the necessary capital to expand his facility.

For several years he has been trying to get the license because his studies showed it would provide a very feasible way to expand his business and maximize his income. Being able to serve alcoholic beverages with his food would, in his opinion, do the following:

1. Attract those potential patrons who insist on eating at a facility where they can also be served a drink.

2. Would add 40% to the average revenue of the guest check although it would cut table turnover because of longer seat occupancy.

3. Labor would not be as costly in proportion to the volume.

4. The gross profit margin would be greater in liquor and easier to control.

5. The larger number of seats provided by the expansion would cut the cost per seat.

Jones' present location is on the edge of a city of 15,000 people on a main entry area that is commercialized with a shopping center, some offices, a clinic, a car dealership, etc. He is open 16 hours a day, 7 days a week, serving breakfast, luncheon, dinner and children's menus. His guest check average is $2.75 which is on the low side of the national average. He has owned the business for 5 years and is a very good businessman and restaurant operator with good customer relations. His records are very good; he knows his costs and has excellent control over them. He is getting an excellent return for a facility the size of his.

A year ago, he put a new mortgage on his real estate and completely remodeled his kitchen, adding $55,000 in new equipment in order to comply with the new government OSHA regulations and to increase the efficiency of the food preparation. This new facility is excellent but it strapped him financially. Now the liquor opportunity makes him wish he could have held off this expenditure because he cannot raise the money to comply with the license requirements.

Because he would like someone to share the management responsibility so he can have more free time, he decides to find a working partner with experience in the retail liquor on-sale operation. His business equity is $88,000 and although he would not sell his business for that amount he would be willing to share it equally with the right person for an equal investment in cash. This would be enough to effect the necessary expansion and not cause too much debt liability.

Jones' search for outside capital comes up with a good candidate in a man named Smith. Smith had a small bar in a neighboring small town 20 miles away. His was practically a one-man operation and he had to be open from 9 a.m. to 1 a.m. six days a week. While he liked the business, he did not have any growth, the hours were terrible, and there was no one with whom he could share the responsibility. He sold his business recently, and with savings, has $75,000 to invest as an owner-operator. He also has a good following from the small town that is a market potential. Jones decides to carry out a complete study of the situation in order to make a sound decision on both Smith and the proposed expansion.

Appendix B

STEPS IN THE REORGANIZATION PROCESS OF THE JONES RESTAURANT

A. Objectives:

1. To determine the feasibility of maximizing his business income by expanding the facility in order to accomodate more patrons and thereby be licensed to serve alcoholic beverages.

2. To obtain a sufficient amount of capital, if expansion is warranted by the study, to carry out the necessary construction to comply with the city requirement for licensing.

3. To decide on a financial plan to use the capital and the business structure most suitable to maximize personal income and provide the investor a maximum return on his/her investment.

B. Alternative Courses of Action:

1. Pass up the license because of lack of capital to expand to meet requirements.

2. Sell or rent present facility to lease a large enough one to meet requirements.

3. Arrange to have a new facility built by a real estate investment developer.

4. Incorporate the business and sell equity shares to raise the necessary funds.

5. Form some type of partnership by selling one or more individuals a portion of the business sufficient to raise the necessary capital.

6. Build a new facility at a different location if necessary capital is arranged.

7. Add on to the present facility if necessary capital is arranged.

8. Change the basic business operating structure to a corporation but maintain real estate sole proprietorship.

C. Assembly of Relevant Information:

1. Competitive Situation: There is another family style restaurant just a block away and a truck stop a half mile out at a main intersection. There is one small liquor bar that also sells off-sale in the nearby shopping center. The nearest restaurant that offers liquors is downtown. There is a Holiday Inn and a Ramada Inn about 2 miles away on the Interstate. Both have liquor and food. Other than that, there are a couple of supper clubs on the other end of town.

2. Market Potential: National figures show that for restaurants offering liquor, liquor accounts for 30% of their gross sales. Figures also show that restaurants that have both food and drink average $6.17 per guest check compared to Jones' $2.75 average. Jones conservatively projects a $4.75 guest check with liquor. This would require 6,315 guest checks for the year to meet his projected $300,000 sales figure.

   Last year he had to have 5,455 guest checks for only $150,000 worth of sales. Therefore, with liquor he can double the volume with only 960 additional checks or less than 3 per day. This is a 15% increase in customers and because of the new relatively exclusive area market he projects it with confidence.

3. Potential as a Result of Expansion: Business patron capacity would more than double with 50 seats in the bar. This leaves an additional potential of another 40% patron increase to meet present capacity use. Also, the average guest check amount has an additional $1.50 potential to meet industry averages. This means the potential is 8,840 guest checks at $6.25 or annual gross sales of $550,000 if the business increases in proportion to the size of the new facility.

4. Expansion Requirements: A total of 7,000 sq. ft. would be adequate to provide a 100 seat restaurant, 50 seat bar-lounge, small entertainment center, and additional storage. This would require an addition of 4,000 sq. ft. or a new facility of 7,000 sq. ft. The parking requirement is one car stall for each 100 sq. ft. of building for this type of business. Parking for 70 cars at 250 sq. ft. per car requires 17,500 sq. ft. of land. Total minimum land requirement is 24,500 sq. ft. Jones has 30,000 sq. ft. which will also allow greenery and walks.

5. Facility Costs: Jones' land is valued at $1.00 per sq. ft. and his building at $10.00 per sq. ft. without any equipment or furnishings at total $60,000 value. New construction would cost $25.00 per sq. ft., or $100,000 for the addition, or $175,000 for a totally new facility, another $30,000 for land. Bare lease is $4 per sq. ft. for an existing facility or $6 per sq. ft. for a lease on a building built to order on a good site.

6. Lease Availability: There are 2 existing facilities available: one would be a little small at 6,000 sq. ft. and the other a little large at 9,000 sq. ft. The owner of the larger facility would adjust the price to a 7,000 sq. ft. charge. Both places, though fairly new, would require considerable major remodeling, part of which would be shared by the owner for a long term lease. However, neither location has the traffic exposure or the convenience of Jones' present location, but they are in the immediate neighborhood. A developer has a site comparable to that of Jones, just two blocks away on the same highway where he would build to suit.

7. Availability of Investment Capital: Because of Jones' potential liquor license and his "track record" he can get private investors who do not want to be active in the business. He also has Smith's offer of active investment if it can be worked out to the satisfaction of both of them.

D. Evaluation of each alternative:

	Alternative	Advantages	Disadvantages
1.	Pass up the license.	Eliminates liquor involvement. A few customers will be lost.	Lose all possibilities of meeting objectives. Opportunity might never come again.
2.	Lease available facility.	Limits investment to remodeling, equipment & furnishings.	Loss of real estate equity. Established location change. Less advantageous site location available. Not built to satisfy business need.
3.	Lease built-to-order new facility.	Good location available. Limits investment to equipment & furnishings. Would be built to meet business needs.	Loss of real estate equity. Cost is very high & limited control on future cost. Requires a move of location & equipment.
4.	Sell shares for capital.	Gets the money and you're still the "boss".	Does not provide managerial assistance. Doubles the work load.
5.	Form partnership with Smith.	Gets the money. Gets liquor expertise. Gives more free time.	Partner could turn out bad and not carry his load.
6.	Build a new facility at a different site.	Would be nicer than an addition.	Would cost considerably more. Would have to move and reinstall equipment. Would have to develop a new location.
7.	Add on to present facility.	Least expensive. Requires no move. Location is developed.	Difficulty of add-on construction and remodeling mess.
8.	Change business structure to corporation and proprietorship combination.	Eliminates liability for partner's action. Limits personal liability for business operation. Easier sale of part ownership. Builds real estate equity and gives advantage of capital gain in future sales. Tax advantage.	Cost of incorporation. Two sets of books for two businesses.

E. Choice of Alternatives:

1. Jones decides that he meets his first objective by the main decision to expand. Based on his projection studies, he feels the move is very feasible to maximize income.

2. He decides to accept Smith's partnership capital and active participation to provide the necessary funds to build and for the liquor management. He decides to build an addition on the present site because investment-wise, it gives him the most for his money and there is no risk of changing locations. This maximizes his personal income by 20% and meets his objective.

3. His financial analysis and the entry of a new partner convinces him to reorganize the business structure according to plan.

F. Implementing the final decisions:

1. Draw up an agreement with Smith.

2. Start corporation proceedings.

3. Draw up plans for the addition and show them to city council for approval.

4. Arrange financing with banker - a 65% loan should not be difficult for only 15 years.

5. Get bids from contractors.

6. Proceed with the construction.

7. Announce plans to the press.

8. Get Smith started in restaurant management.

G. Follow-up and control:

1. Stay on top of construction to see it is done right and is on schedule as to time and cost.

2. Lay plans for opening, line up suppliers, get books in order.

3. Set new hours, work out schedules, line up help, lay out advertising programs, etc.

Decision Summary

The analysis and projection clearly show that Jones has done his homework and made some very sound decisions. It looks as if he will meet his objective of maximizing his income and then some. Smith is the key risk, but if he is the right man, everything should go very well for both of them.

Appendix C

COMPARATIVE ANALYSIS OF COSTS & EARNINGS WITH INDUSTRY AVERAGES

WORKSHEET: CURRENT 50 SEAT FOOD ONLY

Complete and Compare Statement of Income and Expense	Jones Figures Dollars	Jones Figures (% of Sales)	Food Only Restaurant Industry Report 1975	Variance + or -
Sales				
Food	$ 150,000	100.00%	100.00%	00
Beverages	---	---	---	--
Total Sales	---	---	---	--
Cost of Sales				
Food	54,885	36.59%	41.76%	-5.17
Beverages				
Total Cost of Sales	54,888	36.59%	41.76%	-5.17
Gross Profit	95,115	63.41%	58.24%	
Other Income			+.49%	+4.68
Controllable Expense				
Labor & Payroll Tax	41,610	27.74%	32.15%	-4.41
Management & Admin.	11,000	7.33%	4.37%	+2.95
Utilities	5,190	3.46%	1.84%	+1.62
Direct Operating Expenses	7,305	4.87%	5.11%	- .24
Music & Entertainment	---	---	.13%	- .13
Advertising & Promotion	2,775	1.85%	1.13%	+ .72
Repairs & Maintenance	1,560	1.04%	.85%	+ .19
Total Controllable Expenses	69,440	46.29%	24.57%	+ .72
Income Before Occupation Costs	25,680	17.12%	13.15%	+3.97
Rent & Insurance	8,355	5.57%	4.01%	-1.56
Income Before Interest & Deprec.	17,325	11.55%	9.14%	+2.41
Less Interest & Deprec.	5,595	3.73%	---	--
Profit Before Tax	11,730	7.82%	---	--

Supplemental Operating Information	Jones Figures	Restaurant Report	Variance + or -
Sales Per Seat			
Food	$ 3,000	$ 3,642	$ - 642
Beverage			
Total			
Average Rec't/Cover (Tot. Sales ÷ Covers)	$ 2.75	$ 3.44	$ - .69
Daily Seat Turnover (Covers ÷ Seat ÷ 365)	2.99 times	3.09 times	- .10 times
Index of Productivity [Sales ÷ (Payroll + Ben.)]	3.60 times	3.11 times	+ .49 times
Current Ratio 5500 Assets ÷ 3000 Liab.	1.83 times	1.23 times	+ .60 times
Accounts Receivable Ratio to Sales	1.00 times	1.90 times	- .90 times
Inventory Turnover (Cost of Sales ÷ Ave. Inventory)			
Food 54,888 ÷ 3,000	18.30 times	20.20 times	-1.90 times
Beverages			
Total			
Return on Equity (Net Profit ÷ Net Worth) (Before Taxes)	17.25%	16.80%	+ .45%

$68,000 NET WORTH
AVERAGE SEAT COST $1,360 VS. INDUSTRY $966

Appendix D

PROJECTED ANALYSIS OF COSTS & EARNINGS COMPARED TO INDUSTRY AVERAGES

WORKSHEET: PROJECTED 100 SEAT WITH LIQUOR

Complete and Compare Statement of Income and Expense	Projected Figures Dollars	Projected Figures (% of Sales)	Food & Liquor Restaurant Industry Report 1975	Variance + or -
Sales				
Food	$210,000	70.00%	70.00%	-
Beverages	90,000	30.00%	30.00%	-
Total Sales	300,000	100.00%	100.00%	-
Cost of Sales				
Food	76,840	36.59%	43.40%	- 6.81
Beverages	23,850	26.50%	26.50%	-
Total Cost of Sales	100,690	33.56%	38.50%	- 4.94
Gross Profit	199,310	66.44%	61.50%	
Other Income			.70%	+ 4.79
Controllable Expense				
Labor & Payroll Tax	78,055	26.02%	26.40%	- .38
Management & Admin.	30,000	10.00%	7.00%	+ 3.00
Utilities	9,000	3.00%	2.00%	+ 1.00
Direct Operating Exp.	15,510	5.17%	5.41%	- .24
Music & Entertainment	3,000	1.00%	.80%	+ .20
Advertising & Promotion	5,550	1.85%	1.80%	+ .05
Repairs & Maintenance	5,100	1.70%	1.70%	-
Total Controllable Expenses	146,220	48.74%	45.11%	+ 3.63
Income Before Occupation Costs	53,090	17.70%	17.10%	+ .60
Rent & Insurance	29,700	9.90%	6.30%	+ 3.60
Income Before Interest & Deprec.	23,400	7.80%	10.80%	- 3.00
Less Interest & Deprec.	7,500	2.50%		
Profit Before Tax	15,900	5.30%		

Supplemental Operating Info.	Your Figures	Restaurant Report	Variance + or -
Sales Per Seat			
Food	$2100	$2327	$ - 227
Beverage	900	1131	- 231
Total	3000	3458	- 458
Average Rec't/Cover (Tot. Sales ÷ Covers)	4.75	6.17	-1.42
Daily Seat Turnover (Covers ÷ Seat ÷ 365)	1.30 times	1.85 times	- .55 times
Index of Productivity [Sales ÷ (Payroll + Ben.)]	3.84 times	3.78 times	+ .06 times
Current Ratio	1.83 times	1.23 times	+ .60 times
Accounts Receivable Ratio to Sales	1.00 times	1.90 times	- .09 times
Inventory Turnover (Cost of Sales ÷ Ave. Inventory)			
Food 76.840 ÷ 4,000	19.20 times	20.20 times	-1.00 times
Beverage 23,850 ÷ 2,500	9.54 times	11.70 times	-2.16 times
Total 100,690 ÷ 6,500	14.37 times	15.95 times	-1.58 times
Return on Equity (Net Profit ÷ Net Worth) (Before Taxes)	16.56 %	16.80 %	- .24 %

$98,000 NET WORTH
AVERAGE SEAT COST $980 VS. INDUSTRY $966

Appendix E

FINANCIAL ANALYSIS OF PRESENT AND PROJECTED INVESTMENT BASED ON NEW CAPITAL AND DEBT LIABILITY INVESTMENT TO EXPAND EXISTING FACILITIES AND SALES

Jones' Investment

Business Net Worth (Equip., Cash & Inventory)		$ 68,000
Build. & Land Appraised Value	60,000	
Less Mortgage	40,000	20,000
Total Present Investment		$ 88,000
Less Notes Receivable Smith		- 6,500
Total New Investment		$ 81,500

Construction Projection

4,000 sq. ft. at $25	$100,000
Remodeling Restaurant	18,000
Misc. Cost - Plans, etc.	2,000
Additional Parking - 50 Cars	5,000
Total Construction Costs	$125,000
Retire Present Mortgage	40,000
Total Investment Required	$165,000

Smith's Proposed Investment

Retire Present Mortgage	$ 40,000
Apply to New Mortgage	5,000
Purchase New Equip. & Furnishings	30,000
Cash Outlay	$ 75,000
Note to Jones 2 yr. 8%	6,500
Total Investment Equal to Smith	$ 81,500

Projected Business New Worth, Corporate

Cash	$ 10,000
Inventory	3,000
Restaurant Equip. (Previous)	55,000
New Bar Equip. & Furnishings	30,000
Total	$ 98,000

Projected Real Estate Value

Old Value	$ 60,000
Building Costs	125,000
Total Value	$185,000

Real Estate Partnership Projection

Equity	$ 65,000	Depreciation	20 yr.
Mortgage	$120,000	- 15 yr., 65% Value	

Rental Income (7,000 sq. ft. at $4 per foot)		$ 28,000
Expenses		
Interest 10%	$ 12,000	
Depreciation/Amortization	8,000	

Taxes	$ 5,000	
Insurance	500	
Repairs & Maintenance	500	
Total Expenses		$ 26,000
Return on Investment		2,000
		$ 28,000

Projected Individual Net Worth:

	Jones	Smith
50% Bldg. Equity Proprietorship	$ 32,500	$ 32,500
50% Bus. Equity Corporate	49,000	49,000
Note Rec./Pay Partner Private	6,500	- 6,500 Less
Jones amount of previous worth/Smith Cash Invest.	$88,000	$ 75,000

Jones	Projected Profit	Previous Profit
Salary (Corporate)	$ 13,000	$ 9,000
½ Profit (Corporate)	7,950	11,730
½ Real Estate Return	1,000	none
Payment & Interest on Note 8%	3,770	none
Total Return	$ 25,720	$ 20,730

MAXIMIZES PRESENT INCOME BY 20% BEFORE TAXES

Smith's Projected Profit

Salary (Corporate)	$ 13,000	
½ Profit (Corporate)	7,950	
½ Real Estate Return	1,000	
Total Income		$ 21,950
Less Note & Interest Pyament		3,770
Net Income		$ 18,180

24.24% RETURN ON HIS INVESTMENT OF $75,000 AND LABOR

Tax Advantage of Incorporating Jones

Ordinary Income		
Salary	$ 13,000	
Interest	520	
Rent	1,000	
Total Ordinary		$ 14,520
Corporate Profit		7,950
Long Term Capital Gain		3,250
Total Income		25,720

Projected Non-Taxable Real Estate Depreciation Equity Gain
Annual Present $2,666 Projected Half $4,000

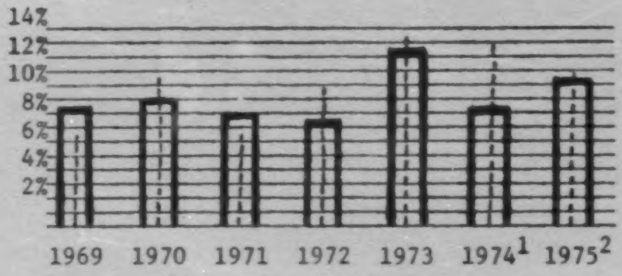
Projected Total Value of the 2 new companies under reorganization

Building and Land	$185,000
Equipment and Furnishings	85,000
Liquid Assets	13,000
Total	$283,000

Appendix
F

NRA Predicts 10.7 Percent Gain In Public Eating Place Sales For 1975

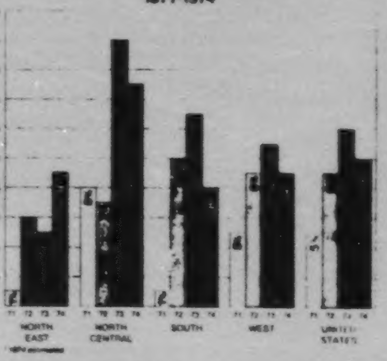
Yearly Percent
Increase in
Eating Place
Sales ----
vs. Percent
Increase in
Disposable
Income ▭
1969-1975



[1] Estimated

[2] Disposable Income Growth is a National Planning Assoc. Project. Eating Place Sales vs. Growth is a NRA projection.

Regional Growth Eating / Drinking Place Sales 1971-1974



Return on Investment

	All Restaurants	Leased	Own Land and Building
Return on net tangible assets*	15.5%	16.8%	13.8%
Return on equity†	13.8	15.6	10.6

*Average ratio of net income before income taxes to total assets minus current liabilities.

†Average ratio of net income after provision for income taxes to stockholders equity.

Return on Total Assets

Group	Sales Per Dollar of Total Assets	Earnings Ratio	Rate of Return
Leased premises	$2.39	5.2%	12.4%
Own land and buildings	2.26	4.8	10.8
All restaurants*	2.34	5.0	11.7

*Based on those providing data.

Comparison of Average Receipt Per Cover and Seat Turnover by Degree of Competition Reported

Competition Reported	Average Receipt Per Cover	Seat Turnover
Intense	$6.53	1.76
Average	5.30	2.19
Mild	4.25	2.63

Average Receipt Per Cover and Average Daily Turnover

	Receipt Per Cover*	Daily Seat Turnover†
All restaurants	$5.83	1.95
Restaurants serving		
Food only	3.44	3.09
Food and beverages	6.17	1.66
Food and beverage restaurants		
By location		
Center city	6.52	1.44
Suburban	6.30	2.23
Neighborhood	5.49	1.66
By sales volume		
Under $600,000	5.67	1.26
$600,000–999,999	5.00	1.90
$1,000,000 and over	7.02	1.95

*Based on those providing data.

†Average daily covers divided by number of seats.

SOURCES
ABOVE: National Restaurant Association
BELOW: National Restaurant News

Chain	Headquarters	Total Annual Sales (mil.)	Avg. per Unit Annual Volume (thous.)	Avg. Ticket per Customer	Grade of Meat	No. Company Units	No. Franchised Units	Total No. New Units Projected '76
PONDEROSA	Dayton, Ohio	$250	$450	$2.15	Commercial	325	210	88
BONANZA	Dallas, Tex.	210	400	2.30	Commercial	223	378	50
SIZZLER	Los Angeles, Calif.	150*	525	3.50	Choice	53	240	30
WESTERN SIZZLIN'	Augusta, Ga.	140*	570	2.50	Choice	2	250	30
MR. STEAK	Denver, Colo.	97	375	3.25	Choice	32	223	15
RUSTLER	King of Prussia, Pa.	66*	440	2.20	Commercial	156	0	0
SIRLOIN STOCKADE	Oklahoma City, Okla.	45*	375	2.25	Choice	117	35	55
YORK	Columbus, Ohio	20*	500*	NA	NA	40	0	NA
HUNGRY BULL	Spartanburg, S.C.	12	500	3.10	Choice	25	0	7
TAD'S	New York, N.Y.	6	750	3.00	Commercial	9	0	1

*NRN estimate NA—Not Available

Source: NRN Research

Ten leading budget steak chains account for a total $1 billion annual volume and average $490,000 sales per unit. They project 276 new units.

food business indicators

RETAIL SALES as of August 1975:	Percent Change July 1975 to August 1975	Eight Mos. '75 vs. Eight Mos. '74
Total Retail (seasonally adjusted)	− 1%	+ 7%
Food Stores (unadjusted)	+ 1%	+ 11%
Eating & Drinking Places (unadjusted)	+ 5%	+ 14%

(Source: Bureau of the Census)

EATING AND DRINKING PLACE INDUSTRY EMPLOYMENT AND EARNINGS DATA:	July 1975	Percent Change July '74 to July '75
Total Employment	3,306,300	+ 2%
Nonsupervisory Employment	3,085,700	+ 2%
Nonsupervisory Average Hourly Earnings	$2.50	+ 7%
Average Weekly Hours	29.8	− 2%

(Source: Bureau of Labor Statistics)

CONSUMER PRICE INDEX:	Percent Change July to Aug. '75	Eight Mos. '75 vs. Eight Mos. '74
Food at Home	− .5%	+ 8.8%
Food Away From Home	+ .6%	+ 10.1%
All Items less Food	+ .4%	+ 10.4%

(Source: Bureau of Labor Statistics)

WHOLESALE PRICE INDEX:	Percent Change July to Aug. '75	Eight Mos. '75 vs. Eight Mos. '74
Farm Products	− .3%	− 3.3%
Fresh & Dried Fruits and Vegetables	− 13.9%	− 9.7%
Eggs	+ 12.2%	− 2.1%
Processed Foods & Feeds	+ .9%	+ 10.9%
Cereal & Bakery Products	− .5%	+ 6.2%
Meats, Poultry & Fish	− 2.5%	+ 12.2%
Dairy Products	+ 2.0%	+ 2.7%
Processed Fruits & Vegetables	− .5%	+ 15.6%
Sugar & Confectionery	+ 6.5%	+ 32.6%

(Source: Bureau of Labor Statistics)

The following table depicts the number of persons employed in foodservice occupations and as restaurant, cafeteria and bar managers in 1974, the proportion of female employees and the percent increase in total employees from 1973 to 1974.

	Number of Workers, 1974	Percent Females	Percent Increase in Total Workers 1973-1974
Foodservice Workers	3,538,000	70.2%	4.0%
Bartenders	233,000	32.6%	8.4%
Cooks	955,000	58.8%	2.9%
Dishwashers	208,000	37.0%	6.1%
Food counter & Fountain Workers	351,000	85.2%	11.8%
Waiters & waiters' assistants	1,343,000	83.3%	2.9%
Waiters	1,182,000	91.8%	2.9%
Others	448,000	not available	1.0%
Restaurant, cafeteria and bar managers	493,000	33.9%	no change

Industry Index

RETAIL SALES (millions of dollars)	Four Weeks Ended 9/13/75	Percent Change vs. Year Ago	Year to Date 9/13/75	Percent Change vs. Year Ago
Eating & Drinking Places	$ 3,820	+10.6%	$33,466	+14.5%
Food Stores	$10,272	+ 9.3%	$92,423	+10.9%

(Source: Bureau of Census)

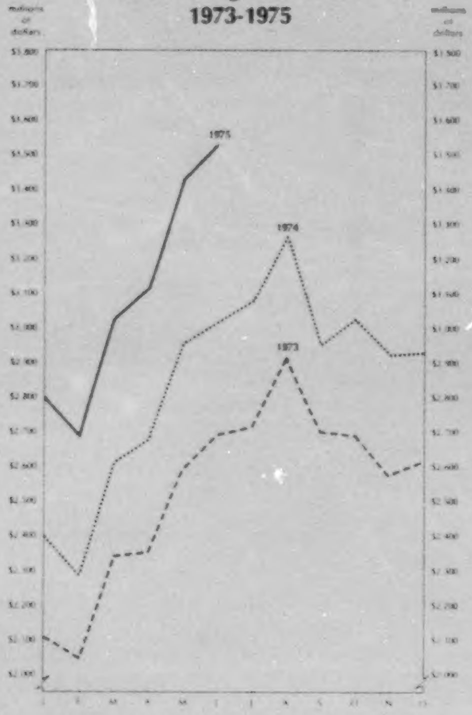
FOOD PRICES	Percent Change June vs. Year Ago	Percent Change 1975 to Date vs. Year Ago
Food Away From Home	+8.3%	+10.1%
Food at Home	+9.8%	+ 8.8%

(Source: Bureau of Labor Statistics)

SOURCE: National Restaurant Association

Sales Trends and Food Prices at a Glance:

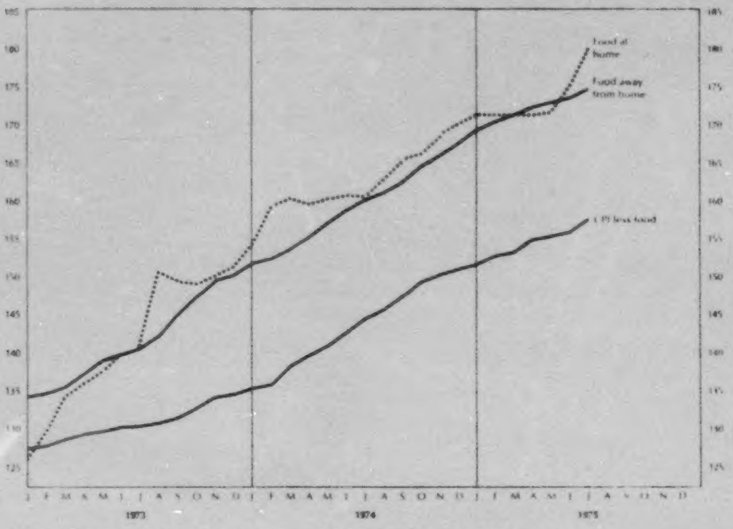
Total Eating Place Sales 1973-1975



Source: *Monthly Retail Trade*, U.S. Dept. of Commerce

Eating place sales for the first half of 1975 totaled $16.8 billion, up 16.5 percent from the first half of 1974.

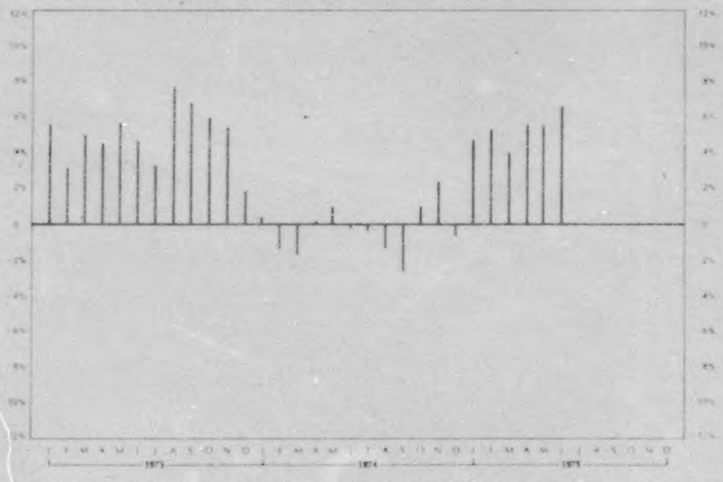
Consumer Price Index (1967 = 100)



Source: *Consumer Price Index*, Bureau of Labor Statistics.

Food at home prices, which had remained relatively stable earlier this year, resumed their steep climb in June; however, for the first seven months of 1975 food away from home prices increased 10.4 percent while food at home prices were up 8.7 percent.

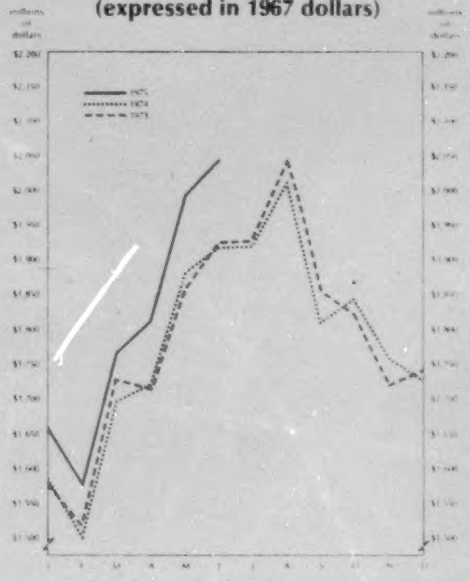
Real Monthly Eating Place Sales Percent Change Versus One Year Ago (sales expressed in 1967 dollars)



Sources: *Monthly Retail Trade*, U.S. Dept. of Commerce; *Consumer Price Index*, Bureau of Labor Statistics

Real monthly eating place sales have shown a substantial gain in each of the first six months of 1975 from the previous year. Real sales were up 6.4 percent from June 1974 to June 1975.

Real Monthly Eating Place Sales, 1973-75 (expressed in 1967 dollars)



Sources: *Monthly Retail Trade*, U.S. Dept. of Commerce; *Consumer Price Index*, Bureau of Labor Statistics

Real monthly eating place sales (expressed in 1967 dollars to adjust for rising menu prices) rose 5.3 percent in the first half of 1975.

REFRESHMENT PLACE GROWTH BY STATE, 1967-72
(Only those establishments with payroll are included)

	Number of Establishments		Sales Volume		Proportion of Total Eating Place Sales	
	1972	Percent Change 1967 to 1972	1972 (000)	Percent Change 1967 to 1972	1967	1972
United States	72,850	33.7%	$8,537,626	149.8%	19.0%	29.1%
New England	4,385	26.8%	$ 498,017	129.3%	19.4%	26.6%
Maine	389	16.8	34,068	141.2	21.1	26.5
New Hampshire	320	13.5	34,288	124.8	24.6	30.4
Vermont	152	31.0	14,771	184.8	15.6	23.5
Massachusetts	2,174	32.4	256,535	134.3	18.1	25.8
Rhode Island	333	33.7	39,389	162.5	18.4	29.0
Connecticut	1,017	21.6	118,966	104.7	21.3	27.0
Middle Atlantic	10,667	10.0%	$1,237,118	100.5%	15.9%	23.2%
New York	5,545	14.3	641,574	90.3	14.5	21.3
New Jersey	1,956	2.8	232,786	97.7	17.2	22.9
Pennsylvania	3,166	7.5	362,758	123.4	18.5	27.8
East North Central	13,941	34.4%	$1,756,373	148.9%	19.8%	30.8%
Ohio	3,798	35.8	496,000	173.5	20.0	33.6
Indiana	1,937	37.9	232,983	140.9	21.9	33.0
Illinois	3,798	24.8	485,001	109.5	19.7	27.9
Michigan	2,893	47.1	367,502	184.0	18.8	30.7
Wisconsin	1,515	30.0	174,887	162.1	19.1	29.9
West North Central	6,059	21.9%	$ 595,357	125.2%	20.9%	29.5%
Minnesota	1,256	31.1	130,929	172.0	16.4	27.4
Iowa	1,106	25.8	102,549	141.6	19.7	31.5
Missouri	1,706	26.1	184,549	119.2	21.3	29.4
N. Dakota	200	4.7	15,981	80.6	24.5	26.4
S. Dakota	252	11.5	20,836	130.2	20.7	28.1
Nebraska	536	8.5	50,646	106.1	20.7	26.4
Kansas	1,003	15.4	89,867	90.9	29.6	34.5
South Atlantic	11,093	59.1%	$1,453,929	197.4%	20.7%	32.8%
Delaware	220	50.7	31,946	227.1	19.9	36.9
Maryland	1,195	62.6	190,975	231.8	17.9	33.8
D. C.	237	− 4.1	43,656	90.5	12.3	19.0
Virginia	1,457	44.4	198,180	201.9	20.4	33.4
W. Virginia	585	11.2	50,466	101.1	28.4	32.2
N. Carolina	1,833	48.8	202,977	159.6	26.7	36.8
S. Carolina	870	60.8	102,998	163.8	31.4	39.6
Georgia	1,715	72.4	239,245	210.5	25.0	39.0
Florida	2,963	92.3	393,486	246.4	16.9	28.7
East South Central	4,063	36.8%	$ 469,833	183.9%	24.1%	37.2%
Kentucky	905	33.3	122,929	229.3	19.0	36.6
Tennessee	1,361	38.3	162,168	174.7	24.6	35.4
Alabama	1,106	30.1	121,485	150.4	29.1	39.3
Mississippi	691	50.9	63,251	206.7	24.9	39.4
West South Central	7,939	37.2%	$ 804,393	173.5%	22.1%	33.6%
Arkansas	713	7.9	61,487	132.8	29.6	36.0
Louisiana	1,112	56.8	118,328	173.4	19.5	30.3
Oklahoma	1,215	15.2	110,994	139.0	26.1	34.8
Texas	4,899	45.7	513,584	188.5	21.2	33.9
Mountain	3,538	42.7%	$ 388,510	184.4%	19.5%	29.0%
Montana	292	19.7	23,667	125.4	18.2	25.5
Idaho	337	33.7	29,152	126.2	25.4	30.8
Wyoming	154	35.1	13,891	151.6	21.0	26.8
Colorado	836	47.2	103,433	189.7	18.2	26.0
New Mexico	457	28.0	41,856	133.4	23.5	31.3
Arizona	740	50.1	85,514	235.6	15.9	26.9
Utah	473	47.8	56,932	203.1	25.4	39.0
Nevada	249	90.1	34,065	248.9	17.0	32.9
Pacific	11,165	43.5%	$1,334,096	152.5%	17.3%	26.9%
Washington	1,240	38.1	138,196	136.2	17.3	25.9
Oregon	842	44.9	97,358	142.9	22.1	28.7
California	8,688	43.7	1,032,190	152.5	17.1	27.1
Alaska	95	82.7	13,200	259.3	13.3	24.9
Hawaii	300	47.8	53,152	208.5	15.1	23.6

Source: *1967, 1972 Census of Retail Trade*, Bureau of the Census. Percentage calculations by NRA

operating statement of a 160 seat table service restaurant*

	August '75	August '74	Year to Date '75
Sales			
Food	70	71	71
Liq/Beer	15	16	15
Wine	15	13	14
Total Sales	100	100	100
Food Cost	40.1	40	38.1
Liq Cost	27	29.0	30.4
Wine Cost	49	44.0	50.5
Cost of Sales	39.3	38.7	38.4
Wages & Fringe Benefits	23.7	24.1	22.2
Other Controllable Expenses			
Repair & Maintenance	1	1.7	1.5
Laundry	2.8	2.5	2.5
Service Wear	1	1.4	1.0
Guest Supplies	.5	2.1	1.8
Administrative	.1	1.1	.5
Advertising & Promotion	3.7	3.4	3.4
Utilities	3.0	2.4	2.3
Entertainment	4.7	5.7	5.1
Total	16.8	20.3	18.1
Wage & Controllable	40.5	44.4	40.3
Operating Expenses	20.2	18.5	21.6
Noncontrollable Expenses			
Rent	6.0	6.7	6.1
Depreciation	1.5	1.6	1.5
USG, Taxes & Legal	2.8	.4	1.0
Interest	–0–	–0–	1.9
Misc.	2.8	3.1	3.0
Total	13.1	11.8	13.5
Net (Before Taxes)	7.1	6.7	8.1

*This 160 seat restaurant is located in the Southeastern United States, and serves dinner six days a week. It offers eighteen entrees with a $15 check average. Located in a residential section with excellent access to major highways, it draws customers from around the state.

NRA NEWS DATA 11/75

operating statement of a typical limited menu steak house*

	JULY 1974	JULY 1975	Year to Date '75
Sales	100.0%	100.0%	100.0%
Cost of Sales	42.3	47.2	41.3
Salaries	18.1	15.2	17.9
Payroll Taxes	1.7	1.4	1.6
Employee Benefits	.4	.2	.2
Supplies	1.5	1.4	1.3
Linen	1.2	.8	1.1
Expendable Equipment	.5	.4	.7
Telephone	.3	.2	.2
Repairs & Maintenance	.4	.3	.5
Utilities	1.7	2.0	2.0
Miscellaneous	.8	.9	.6
Advertising	2.5	2.7	3.2
Rent	5.9	5.6	5.9
Amortization of Leasehold Imp.	.2	.2	.2
Depreciation	2.0	1.9	2.1
Insurance	.4	.4	.3
Taxes & Licenses	.8	.7	.9
Credit Card Discounts	1.0	1.0	1.0
Employee Bonuses	1.1	1.2	1.2
Administrative	5.9	5.3	5.3
Other Income	(.4)	(.7)	(.3)
Interest Expense	1.2	1.3	1.4
NET INCOME	10.5	10.4	11.4

*Located in the Southeastern United States, this steak house restaurant seats one hundred thirty-five in the dining room and forty-five in the lounge. Approximately three thousand guests per month are served at lunch (five days per week) and four thousand guests per month at dinner (seven days per week). The average lunch check is $2.90 and the average dinner check is $7.52. The menu consists of six entrees at each meal and virtually all entrees are beef. The July 1975 results were adversely affected by extremely high beef prices, but through increased volume and improved operation efficiencies, income movement adjusted upward.

NRA NEWS DATA 10/75

Appendix K

ANALYSIS OF MUNICIPAL LIQUOR STORE OPERATIONS FOR 1974

Robert W. Mattson, State Auditor

NOTE: Figures on privately owned liquor establishments were not available through any association or other source. The only figures available are those on the municipal operations that are a matter of public record.

There were 399 cities in Minnesota operating municipal liquor stores in 1974. During the year, Ashby opened a municipal liquor store and four municipalities discontinued municipal liquor, leaving 395 cities operating such stores by the end of the year. Only two municipalities failed to report liquor store operations in 1974 in time for this publication -- Calumet and Lake St. Croix Beach. Of all stores, 314 municipalities operated both on and off-sale stores.

Gross sales of municipal liquor stores amounted to $102,580,719 in 1974, in comparison to 1973 gross sales of $91,427,411, an increase of 11.1 million. Both cost of sales and operating expenses were up in 1974 proportionately, resulting in an increase in net income of $1,581,492. Cost of sales rose from 66.6 percent to 66.9 percent in 1974. The contribution of municipal liquor store profits to other municipal funds (a major reason for such stores) was down slightly in 1974 amounting to $9,139,040 as compared with $9,333,553 in 1973 (final figures).

Forty municipalities operate liquor stores having gross sales in excess of $500,000 with 11 having gross sales of more than $1 million and two -- Edina and Richfield -- with sales of $4.17 million and $3.96 million respectively. Richfield had a sales increase of $1.2 million over 1973.

Comparative net income results as a percent of sales is presented below.

	% of Sales	
	1974	1973
On and Off-sale Stores	13.1	12.8
Off-sale Only Stores	10.2	10.1
All Stores	12.2	12.0

It should be noted that 8 communities operated their municipal liquor stores at a loss.

A summary statement of 1974 municipal liquor store operations is presented below.

ON AND OFF-SALES STORES
314 Municipalities

Item	Amount	% of Sales
Sales	$69,841,151	100.0
Cost of Sales	43,218,944	61.9
Gross Profit	26,622,207	38.1
Operating Expense .	17,482,845	25.0
Net Income from Operations ...	$ 9,139,362	13.1
Contributions to Other Municipal Funds	$ 6,675,498	....

OFF-SALE ONLY STORES
85 Municipalities

Item	Amount	% of Sales
Sales	$32,739,568	100.0
Cost of Sales	25,397,657	77.6
Gross Profit	$ 7,341,911	22.4
Operating Expense .	3,997,485	12.2
Net income from Operations ...	$ 3,344,426	10.2
Contributions to Other Municipal Funds	$ 2,463,542	....

ALL STORES
399 Municipalities

Item	Amount	% of Sales
Sales............	$102,580,719	100.0
Cost of Sales.....	68,616,601	66.9
Gross Profit....	$ 33,964,118	33.1
Operating Expense.	21,480,330	20.9
Net Income from Operations...	$ 12,483,788	12.2
Contributions to Other Municipal Funds............	$ 9,139,040	....

Appendix L

"I THOUGHT WE WERE MAKING MONEY?"

As the year started, Mr. Adams of the XYZ Company was in fine shape. His company manufactured and distributed Do-Hickies -- just what the consumer wanted. The cost to manufacture and distribute Do-Hickies was $3.00 each. The selling price was $4.00 each. Mr. Adams always kept a 30 day supply in inventory and paid his manufacturing costs when they were incurred. His customers always charged their purchases and paid promptly at 30-days net. Sales were right on target and the sales manager predicted an increase each month of 500 units over the previous month's sales. Mr. Adams felt that this was his lucky year, and it began like this:

Date	Cash In Bank	Merch. Inv.	Accts. Rec.	Quantity Mfrd.	Cost Of Goods Mfrd.	Quantity Sold	Sales Dollars
	$	$	$		$		$
1-1-76	6,000	3,000	2,000	1,500	4,500	1,000	4,000
2-1-76	3,500	4,500	4,000	2,000	6,000	1,500	6,000
3-1-76	1,500	6,000	6,000	2,500	7,500	2,000	8,000
4-1-76	-0-	7,500	8,000	3,000	9,000	2,500	10,000
5-1-76	(1,000)	9,000	10,000	3,500	10,500	3,000	12,000
6-1-76	(1,500)	10,500	12,000	4,000	12,000	3,500	14,000
7-1-76	(1,500)	12,000	14,000	4,500	13,500	4,000	16,000
8-1-76	(1,000)	13,500	16,000	5,000	15,000	4,500	18,000
9-1-76	-0-	15,000	18,000	5,500	16,500	5,000	20,000
10-1-76	1,500	16,500	20,000	6,000	18,000	5,500	22,000
11-1-76	3,500	18,000	22,000	6,500	19,500	6,000	24,000
12-1-76	6,000	19,500	24,000	7,000	21,000	6,500	26,000

Year III--Unit 11

SITE, BUILDING AND MERCHANDISE HANDLING

Part I. Student Objectives

A. Utilizing written materials and class discussion concerning business law in the area of wage-hour laws, ordinances and regulations at all levels of government, the student will be able to identify those laws that might affect his/her decision to reorganize the business.

B. Given the opportunity to review business and family goals and the steps in the problem solving method, the student will be able to make the decision to reorganize or not to reorganize the business.

C. Utilizing a checklist or score sheet for obtaining a proper site location, the student will be able to decide on a proper site for the business if the reorganization plan calls for site relocation.

D. Utilizing a checklist for modernizing the store and a discussion about building needs as pertains to specific types of businesses, the student will be able to make the decision on building changes if the reorganization plan calls for it.

E. Given written material and an opportunity to discuss variations in merchandise and materials handling, the student will be able to make the decision relative to handling if the reorganization plan calls for it.

Part II. Transition of Units

The previous three units dealt with profit maximizing principles. While Unit 8 went about the reorganizing process by controlling variable operating expenses and pricing, Units 9 and 10 utilized increases in debt liability and capital investment. In all cases, there is a consideration of site, building and merchandise or service.

This unit will deal with the impact of proposed changes on the topic of the previous three units. Technical details, including aspects of business law will be dealt with. The "systems" approach and coordination of the total business will be covered.

The following unit will cover the transitional effects of major adjustments on income, labor and management.

Part III. Lesson

Attention Focuser

Do you have the correct business site? Are your facilities adequate? Is your merchandise or materials-handling system efficient? When is the right time to reorganize? There are many indicators to help answer these questions. If a chain hanging from a roof were being blown straight out by the wind, it would be a strong indication not to go outside. Not all business indicators are this strong or as easily seen.

KEY QUESTION 1. How can laws and regulations affect business reorganization plans?

1. Contracts
2. Occupancy and Real Estate
3. Insolvency and Bankruptcy
4. Trademarks, Patents, and Copyrights
5. Ordinances and Regulations
6. Small Business Administration Assistance

"The provision of management and technical assistance to managers of small firms takes a variety of forms. A series of pamphlets, for example, is published under each of the following titles: (1) Management Aids for Small Manufacturers, (2) Technical Aids for Small Manufacturers, and (3) Small Marketers Aids. In addition, separate publications treat miscellaneous subjects pertinent to small business management. Research studies of small business problems have also been subsidized by grants from the Small Business Administration.

Staff personnel in both Washington and field offices are available for counseling actual or prospective managers of small firms on various management problems. The subjects may range from evaluation of a going concern to analysis of plant location or layout requirements. In some cases, counsel is provided by retired business executives who have volunteered to serve as small business advisors." (Broom and Longenecker, p. 447)

Suggested Teaching Strategy

Show SBA transparency No. 122, Services of Legal Counsel. Discuss the specific situations where the business reorganization plan will call for the advice and services of legal counsel. Refer to chapter 24 of Broom and Longenecker's Small Business Management, 4th Edition, for background information to discuss points 1-5 under this Key Question. Additional publications specific to the needs of the individual class members should be available such as: Wage-Hour Federal Laws, City Zoning Ordinances, etc.

Point 6 refers to the obligation of the SBA for technical assistance. With the variety of needs the individual businessperson will face, it will be impossible to cover each item, but specific sources of information should be available or secured prior to the next individual instruction visit.

KEY QUESTION 2. What is the importance of goals and the problem solving method in the business reorganization process?

1. Analyze and define goals

2. Five-step Problem Solving Method

   a. Define the problem
   b. Define your expectations
   c. Develop alternative solutions
   d. Choose the solution
   e. Provide a trial period

Suggested Teaching Strategy

Show SBA transparency No. 55, Analyze and Define Goals (Purpose). Briefly discuss the status of business and family goals with the students. Then show SBA transparency No. 93, The Five Steps of Problem Solving, and point out that goals are an essential link in problem solving. Goals relate to the problem (if everything was going okay there would be no problem!) and should answer the expectation question. While the previous three units have shown how to use the alternative solutions approach to solving a problem, these steps should be briefly reviewed again.

KEY QUESTION 3. How do you go about selecting a proper site for the business location, or relocation?

"It is not the frequency but the lasting effects of location decisions that make them so important." (Broom and Longenecker, p. 241)

There are many location factors to consider. Each factor is associated generally with business type: retail, service, manufacturing, etc. To each of the factors one needs to ask:

1. What do I need?

2. What is available?

3. What can I afford?

Suggested Teaching Strategy

Utilize handouts of Appendices A and B to help the students to discuss the issue of site location. While there is not a specific handout for "service businesses", it should be pointed out that location in this business is determined by the type of service offered. If customers must come to the store for the service, then the checklist for the retail stores can be modified and used. For the type of service business that is taken to the customer, location is of less importance.

The importance of the checklist and score sheet is to provide a thorough and systematic method for evaluating site locations.

KEY QUESTION 4. How can building needs be satisfied for the reorganization plan?

1. Modernization of existing building.
2. Build an addition to existing building.
3. Build a new building.
4. Buy an existing building.
5. Rent an existing building.

Suggested Teaching Strategy

Appendix C, Store Modernization Check List, may be used either in handout form or as a transparency. If students are in need of this material to actually do an inventory of the items listed, then provide it as a handout. This checklist may also be used in the purchase or rent of existing buildings to determine adequacy for use. It is not likely that the student will consider all of the alternatives listed under the Key Question.

For each alternative listed, a detailed cost estimate needs to be completed. Refer to SBM Year III--Units 9 and 10 as background or review to help arrive at cost estimate formats.

KEY QUESTION 5. What effect will the business reorganization plan have on merchandise and materials handling?

"What is Material Handling?

To the owner-manager of a small or medium-sized business, the handling of his material may seem to be no more than an ordinary activity that goes on all the time--something he can take for granted. The moving, raising, and lowering of merchandise, raw material, and parts is, for most such businesses, a matter of routine.

Material handling, however, is almost a science, to be applied consistently. When facilities are built, material flow should be one of the major factors in determining the size, shape, and general arrangement of the buildings. For manufacturers, it should also often dictate decisions on the placement and layout of the processing machines. To improve the efficiency and reduce handling costs, material flow must be periodically reviewed." (Small Business Management Series # 4, 3rd Edition, p. 1)

Suggested Teaching Strategy

The importance of this subject will vary with the type and size of business the student operates. Appendix D covers the major considerations for materials handling. While it is primarily designed for the larger stores and manufacturing plants, it is basically true for all operations. Use Appendix D as a checklist to bring out those items that may be a factor in the reorganization plan.

Part IV. Summary

A. A review of business and family goals, together with a review of problem solving (decision making) methods, are important preliminaries to the development of a business reorganization plan.

B. A detailed study of the effects of a reorganization plan on site, building and merchandise and materials handling is important before implementing the plan.

Part V. At-The-Business Instruction

Individual students will be at varying stages of business reorganization. Some will be monitoring previous reorganizations, some will be in the physical stage of reorganizing, others will be actually planning their first major reorganization, and some may have determined that no reorganization is necessary. The instructor will need to be prepared to deal with the student at whatever stage exists, but should be emphasizing the the importance of actual decision making, not just the exercise of hypothetical cases.

Part VI. Resources

Overhead Projector
Chalkboard, Chalk, Eraser
SBM Transparencies Nos. 55, 93 and 122
Handouts of Appendices A, B, C and D

Part VII. References

A. References Cited

1. Broom, H.N. and Justin G. Longenecker, Small Business Management, Fourth Edition, South-Western Publishing Co., Cincinnati, 1975.

2. SBA Administrative Management Course Program Topic 13, Small Business Location and Layout, Washington D.C., U.S. Government Printing Office, 1965.

3. SBA Management Aids No. 201, Locating or Relocating Your Business, by Fred I. Weber, Jr., Washington D.C., U.S. Government Printing Office, March 1973 Reprint.

4. SBA Small Business Management Series No. 4 (Third Edition), Improving Material Handling in Small Business, Washington, D.C., U.S. Government Printing Office, 1969.

B. Other References

1. SBA Small Business Management Series No. 21, Profitable Small Plant Layout, by John R. Immer, Washington, D.C., U.S. Government Printing Office, 1964.

2. SBA Small Marketers Aids No. 132, The Federal Wage-Hour Law in Small Firms, Washington D.C., U.S. Government, Dec 1972 Reprint.

3. SBA Small Marketers Aids No. 143, Factors in Considering a Shopping Center Location, by J. Ross McKeever, Washington D.C., U.S. Government Printing Office, December 1973 Reprint

4. SBA Small Business Management Series No. 33, Small Store Planning for Growth, by John W. Wingate and Seymour Helfant, Washington, D.C., U.S. Government Printing Office, 1966.

5. Edgar Persons et al., Small Business Management Curriculum, Volume III, Division of Agricultural Education, University of Minnesota, St. Paul, 1976

Part VIII. Appendices

A. Retail Site Location

B. Manufacturing Site Location

C. Store Modernization Check List

D. The 20 Principles of Material Handling

Appendix A

Retail Site Location

CHECKLIST FOR LOCATING A STORE* **

- I. City or town
  - A. Economic considerations
    - 1. Industry
      - a. Farming
      - b. Manufacturing
      - c. Trading
    - 2. Trend
      - a. Highly satisfactory
      - b. Growing
      - c. Stationary
      - d. Declining
    - 3. Permanency
      - a. Old and well established
      - b. Old and reviving
      - c. New and promising
      - d. Recent and uncertain
    - 4. Diversification
      - a. Many and varied lines
      - b. Many of the same type
      - c. Few varied lines
      - d. Dependent on one industry
    - 5. Stability
      - a. Constant
      - b. Satisfactory
      - c. Average
      - d. Subject to wide fluctuations
    - 6. Seasonality
      - a. Little or no seasonal change
      - b. Mild seasonal change
      - c. Periodical—every few years
      - d. Highly seasonal in nature
    - 7. Future
      - a. Most promising
      - b. Satisfactory
      - c. Uncertain
      - d. Poor outlook
  - B. Population
    - 1. Income distribution
      - a. Mostly wealthy
      - b. Well distributed
      - c. Mostly middle income
      - d. Poor
    - 2. Trend
      - a. Growing
      - b. Large and stable
      - c. Small and stable
      - d. Declining
    - 3. Living status
      - a. Own homes
      - b. Pay substantial rent
      - c. Pay moderate rent
      - d. Pay low rent
  - C. Competition
    - 1. Number of competing stores
      - a. Few
      - b. Average
      - c. Many
      - d. Too many
    - 2. Type of management
      - a. Not progressive
      - b. Average
      - c. Above average
      - d. Alert and progressive
    - 3. Presence of chains
      - a. No chains
      - b. Few chains
      - c. Average number
      - d. Many well established
    - 4. Type of competing stores
      - a. Unattractive
      - b. Average

(continued on next page)

---

* Adapted from Verne A. Bunn, *Buying and Selling a Small Business.* University of Wichita (Kans.), 1963. (Prepared under the Management Research Grant Program of the Small Business Administration.)

Handout No. 13-1

** SBA Administrative Management Course Program Topic 13, Small Business Location and Layout, Washington, D.C., U.S. Government Printing Office, 1965, pp. 29 and 30.

- c. Old and well established
- d. Are many people buying out of community?
- D. The town as a place to live
  - 1. Character of the city
    - a. Are homes neat and clean or run-down and shabby?
    - b. Are lawns, parks, streets, etc., neat, modern, attractive?
    - c. Adequate facilities available
      - 1. Banking
      - 2. Transportation
      - 3. Professional services
      - 4. Utilities
  - 2. Facilities and climate
    - a. Schools
    - b. Churches
    - c. Amusement centers
    - d. Medical and dental services
    - e. Climate
- II. The actual site
  - A. Competition
    - 1. Number of independent stores of same kind as yours
      - a. Same block
      - b. Same side of street
      - c. Across street
    - 2. Number of chain stores
      - a. Same block
      - b. Same side of street
      - c. Across street
    - 3. Kind of stores next door
    - 4. Number of vacancies
      - a. Same side of street
      - b. Across street
      - c. Next door
    - 5. Dollar sales of nearest competitor
  - B. Traffic flow
    - 1. Sex of pedestrians
    - 2. Age of pedestrians
    - 3. Destination of pedestrians
    - 4. Number of passers-by
    - 5. Automobile traffic count
    - 6. Peak hours of traffic flow
    - 7. Percent location of site
  - C. Transportation
    - 1. Transfer points
    - 2. Highway
    - 3. Kind (bus, streetcar, auto, railway)
  - D. Parking facilities
    - 1. Large and convenient
    - 2. Large enough but not convenient
    - 3. Convenient but too small
    - 4. Completely inadequate
  - E. Side of street
  - F. Plant
    - 1. Frontage—in feet
    - 2. Depth—in feet
    - 3. Shape of building
    - 4. Condition
    - 5. Heat—type; air conditioning
    - 6. Light
    - 7. Display space
    - 8. Back entrance
    - 9. Front entrance
    - 10. Display windows
  - G. Corner location—if not, what is it?
  - H. Unfavorable characteristics
    - 1. Fire hazards
    - 2. Cemetery
    - 3. Hospital
    - 4. Industry
    - 5. Relief office
    - 6. Undertaker
    - 7. Vacant lot—no parking possibilities
    - 8. Garages
    - 9. Playground
    - 10. Smoke, dust, odors
    - 11. Poor sidewalks and pavement
    - 12. Unsightly neighborhood buildings
  - I. Professional men in block
    - 1. Medical doctors
    - 2. Dentists
    - 3. Lawyers
    - 4. Veterinarians
    - 5. Others
  - J. History of the site

Appendix B

Manufacturing Site Location

RATING SHEET ON SITES*

Grade each factor: A for excellent, "B" for good, "C" for fair, and "D" for poor.

	Factor	Grade
1.	Centrally located to reach my market	.....
2.	Raw materials available readily	.....
3.	Quantity of available labor	.....
4.	Transportation availability and rates	.....
5.	Labor rates of pay/estimated productivity	.....
6.	Adequacy of utilities (sewer, water, power, gas)	.....
7.	Local business climate	.....
8.	Provision for future expansion	.....
9.	Taxation burden	.....
10.	Topography of the site (slope and foundation)	.....
11.	Quality of police and fire protection	.....
12.	Housing availability for workers and management	.....
13.	Environmental factors (schools, cultural, community atmosphere)	.....
14.	Estimate of quality of this site in 10 years	.....
15.	Estimate of this site in relation to my major competitor	.....

---

* SBA Management Aids No. 201, Locating or Relocating Your Business, by Fred I. Weber, Jr., Washington D.C., U.S. Government Printing Office, 1965, p. 7.

Item Observed	Check (x) Condition of Item		Check (x) Treatment Needed												Enter Cost Estimate
			Alter	Install	Paint	Repair	Replace	Refinish	Rearrange	Remove	Conceal	Build	Clean	Other	
EXTERIOR															
Face of Building	Poor appearance														
	Poor condition														
	Unsuitable color														
	Unsuitable material														
Electric Signs	Poor appearance														
	Poor condition														
	Poor color														
	Illegible														
	Insecure														
	Poor position														
	Improper size														
EXTERIOR															
Entrance Doors	Poor appearance														
	Poor condition														
	Hard to operate														
	Wrong location or size														
	Knobs poorly located														
	Insecure lock														
	Poor lettering														
	Glass too small														
	Poor screens (if used)														
Steps	Can ramp be built?														
	Practicable to change floor level?														
Sidewalk	Poor condition														
	Unsatisfactory material														
Cellar Entrance	Insecure door														
	Not flush with sidewalk														
	Unsafe														
	No elevator														
	No steps down														
	Poor interior condition														
	Poor location														
Outside Equipment															
Vending Machines	Poor appearance														
	Out of order														
	Obsolete design														
	Poorly located														
Curb Service Space	Inadequate														
	Inconvenient														
Parking Space	Inadequate														
	Inconvenient														

Item Observed	Check (x) Condition of Item	Check (x) Treatment Needed												Enter Cost Estimate
		Alter	Install	Paint	Repair	Replace	Refinish	Rearrange	Remove	Conceal	Build	Clean	Other	
EXTERIOR														
Window Lettering and Other Outside Signs	Poor appearance													
	Poor condition													
	Poor color													
	Illegible													
	Poor position													
	Improper size													
	Poor style													
	Letters missing													
	Obstructs vision													
Display Windows Glass	Cracked													
	Scarred													
	Frame too heavy													
Window Base (exterior)	Poor appearance													
	Poor condition													
	Unsuitable color													
	Unsuitable material													
Window Platform (interior)	Poor appearance													
	Poor condition													
	Improper height													
	Too shallow													
Side Walls, Ceiling, and Rear Partition	Poor appearance													
	Poor condition													
	Unsuitable material													
	Unsuitable color													
Lighting	Inadequate													
	Glaring													
	Unduly noticeable													
	Poor style													
Display Windows Ventilation	Condensation													
Awnings	Poor appearance													
	Poor condition													
	Poor color													
	Poor style													
	Improper height													
INTERIOR														
Floors	Poor appearance													
	Squeaky													
	Rough													
	Poorly covered													
	Unsuitable material													
	Unsuitable color													
	Hard to clean													
	Undue moisture													

Items Observed	Check (x) Condition of Item		Check (x) Treatment Needed												Enter Cost Estimate
			Alter	Install	Paint	Repair	Replace	Refinish	Rearrange	Remove	Conceal	Build	Clean	Other	
INTERIOR															
Walls and Ceilings	Poor appearance														
	Poor condition														
	Excessive posters, etc.														
	Poor color harmony														
	Partitions needed														
	Unnecessary obstruction														
	Bad skylights														
	Leaks														
Structural Obstacles	Columns														
	Projecting columns														
	Offsets														
	Partition wall														
	Bad angles														
	Low or varying ceilings														
	Varying floor levels														
	Floor not on street level														
	Elevators														
	Stairways														
Electric Wiring	Unpleasantly noticeable														
	Insufficiently protected														
	Inadequate for expansion of lighting equipment														
	Inadequate for present needs														
Piping, Gas	Exposed														
	Poor condition														
	Inadequate														
Plumbing	Exposed														
	Poor condition														
	Inadequate														
Toilet Rooms	Poor appearance														
	Poor condition														
	Inadequate number														
	Poor location														
	Poor ventilation														
	Poor lighting														
	Unhandy light switch														

Item Observed	Check (x) Condition of Item		Check (x) treatment needed												Enter Cost Estimate
			Alter	Install	Paint	Repair	Replace	Refinish	Rearrange	Remove	Conceal	Build	Clean	Other	
INTERIOR															
Wash Basins, Sinks, and Toilet Bowls	Poor appearance														
	Obsolete design														
	Out of order														
	Hard to operate														
	Unduly noisy														
	Cracks, stains, leaks														
	Unduly exposed														
Telephone Booths	Poor appearance														
	Poor condition														
	Poor location														
	Improper number														
Lighting Fixtures and Departmental Signs	Poor appearance														
	Poor condition														
	Insufficient illumination, out of order														
	Obsolete design														
	Improperly placed														
	Glaring or obscure														
Shelves and Wall Cases	Poor appearance														
	Poor condition														
	Too high														
	Too deep														
	Excessive														
	Insecure														
	Unsuitable material														
	Unsuitable color														
	Drawers stick														
	Doors hide merchandise														
Counters	Poor appearance														
	Poor condition														
	Improper height														
	Excessive														
	Unsuitable material														
	Unsuitable color														
	Faulty design														
	Long, unbroken lengths														
	Poorly placed														
Open Display Equipment	Poor appearance														
	Poor condition														
	Excessive														
	Unsuitable material														
	Unsuitable color														
	Faulty design														
	Poorly placed														

Item Observed	Check (x) Condition of Item	Check (x) Treatment Needed												Enter Cost Estimate
		Alter	Install	Paint	Repair	Replace	Refinish	Rearrange	Remove	Conceal	Build	Clean	Other	
INTERIOR														
Glass Show Cases	Poor appearance													
	Poor condition													
	Excessive													
	Faulty design													
	Poorly placed													
	Glass cracked and scarred													
Heating and Ventilation														
Heating and Heating Equipment	Poor appearance													
	Poor condition													
	Inadequate													
	Poorly placed													
	Obsolete													
	Exposed pipes													
	Inefficient													
Air Conditioning	Inefficient													
	Inadequate													
Fans, regular and draught	Poor appearance													
	Poor condition													
	Inadequate													
	Poorly placed													
	Noisy													
	Obsolete													
Transoms	Poor appearance													
	Poor condition													
	Hard to operate													
	Do not fit													
	Glass broken or cracked													
Refrigeration														
Mechanical	Poor appearance													
	Out of order													
	Poor position													
	Poor drainage													
	Obsolete													
	Inefficient													
	Noisy													
Other Equipment														
Cash Registers	Poor appearance													
	Out of order													
	Obsolete													
	Inefficient													
	Unduly noisy													
	Unsuitable type													
	Improper number													

Item Observed	Check (x) Condition of Item		Check (x) Treatment Needed												Enter Cost Estimate
			Alter	Install	Paint	Repair	Replace	Refinish	Rearrange	Remove	Conceal	Build	Clean	Other	
Other Equipment															
Water Coolers	Poor appearance														
	Out of order														
	Obsolete														
	Inefficient														
	Improper number														
Burglar Alarm	Poor condition														
	Out of order														
	Obsolete														
	Ineffective														
Incinerator, Trash, and Garbage Boxes	Improper size														
	Poor condition														
	Improper place														
	Insecure														
	Fire hazard														
Fire Extinguishers and Other Fire Equipment	Improper places														
	Poor condition														
	Out of order														
	Obsolete														
	Inefficient														
	Need refilling														
	Improper number														
Other Equipment (Add as required)	Poor appearance														
	Poor condition														
	Out of order														
	Obsolete														
	Inefficient														
	Unduly noisy														
	Improper number														
	Improper places														

Year III--Unit 12

PLANNING TRANSITIONAL STAGES

Part I. Student Objectives

A. Given an outline and an opportunity to discuss when and how business reorganizations take place, the student will be able to state the major considerations concerning reorganization.

B. Given an outline of transitional problems, the student will be able to identify those items most important to his/her business reorganization plans.

C. Given an opportunity to discuss the total subject of business reorganization with the class and the instructor, the student will be able to identify his/her future needs for a successful business transition.

Part II. Transition of Units

The previous unit dealt with the technical details of business reorganization involving site, buildings, and merchandise and materials handling.

This unit will cover the transitional effects of major business adjustments on income, labor, management and other affected areas.

Part III. Lesson

Attention Focuser

Even the most successful medical operation, designed to make the person better than before, is followed by a recovery period. So too, business reorganization has its transitional stages.

KEY QUESTION 1. When and how does a business normally reorganize?

1. When to reorganize:

   a. Major reorganizations seldom and sparingly
   b. Minor reorganizations continually

2. Basis for reorganizing:

   a. After completing market plans and budget forecasts
   b. On the basis of recent business analyses

Suggested Teaching Strategy

Discuss the points under the Key Question briefly. Other issues like trends toward service businesses, economic shifts, current fads, etc. may be suggested by the students.

KEY QUESTION 2. What will be some of the transitional problems associated with a business reorganization?

1. What will be the effect on income?
2. What site will be needed?
3. What building will be needed?
4. What equipment will be needed?
5. What capital will be needed?
6. How will labor requirements change?
   a. Amount
   b. Distribution
7. How will markets differ?
8. How long will the transition take?
9. When is the best time to begin the reorganization?
10. Where can I go for needed help and information?

Suggested Teaching Strategy

Start by showing a transparency of Appendix A. The curve represents a large number of Minnesota farmers who were enrolled in a management program similar to the small business management program. One will note that the first three years show a rapid climb in earnings for these farmers and is recognized as the result of their adapting to new technologies. During the 4th to 6th years there is a leveling and slight decline in earnings as these farmers underwent major adjustments in their farming operations. From then on there was a dramatic rise in earnings. It may be suggested that small businesses are like farm businesses in many ways and one might expect them to behave in a similar manner during and after a major reorganization.

Because of the nature of most small businesses, they probably won't be shut down for a very long period of time, if at all, during a reorganization. All of the intermediate steps in making changes should be carefully planned. Because transitional stages will be different for every reorganization, and for every business, it is very difficult to find a tried procedure to follow. References even relating to this area of planning are very general, very sketchy, or non-existent.

Each of the points under the Key Question should be discussed. Most business families will have plans for their business that are in some form of development. A class discussion may lend to the total field of knowledge...much from practical experience.

KEY QUESTION 3. What will be your future needs for a successful business transition?

1. Final determination of goals
2. Communication with employees
3. Evaluation and follow-up plans

Suggested Teaching Strategy

Business families will have to make the final decision which will start the implementation of a reorganization. Employees need to be kept informed, and all changes should be kept under careful scrutiny. Refer to the follow-up and control section of SBM Volume III, Year III, Units 8, 9 and 10 for suggestions on this item.

Part IV. Summary

A. Transitional stages must be planned if a business reorganization is to be smooth and successful.

B. It can be assumed that a major business reorganization will temporarily slow the earnings of the business or at least cause a leveling-off.

Part V. At-The-Business Instruction

Be alert to aiding the business family to secure information they may need for a successful reorganization. Help work out family living problems which might occur due to a temporarily reduced income. Reorganizations will take much of the time of the business family, and may require additional visits from the instructor. Do not hesitate to suggest business consultants to aid in planning and carrying out the reorganization.

Part VI. Resources

Overhead Projector
Chalkboard, Chalk and Eraser
Transparency of Appendix A

Part VII. References

A. References Cited

Persons, Edgar et al., Investments in Education for Farmers: Summary of an Economic Study of the Investment Effects of Education in Agriculture, Division of Agricultural Education, University of Minnesota, St. Paul, 1968.

B. Other References

Persons, Edgar et al., Small Business Management Curriculum, Volume III, Division of Agricultural Education, University of Minnesota, St. Paul, 1976.

Part VIII. Appendices

A. Relationship Between Mean Labor Earnings and Adult Farm Business Management Education

Appendix A

RELATIONSHIP BETWEEN MEAN LABOR EARNINGS AND ADULT FARM BUSINESS MANAGEMENT EDUCATION *

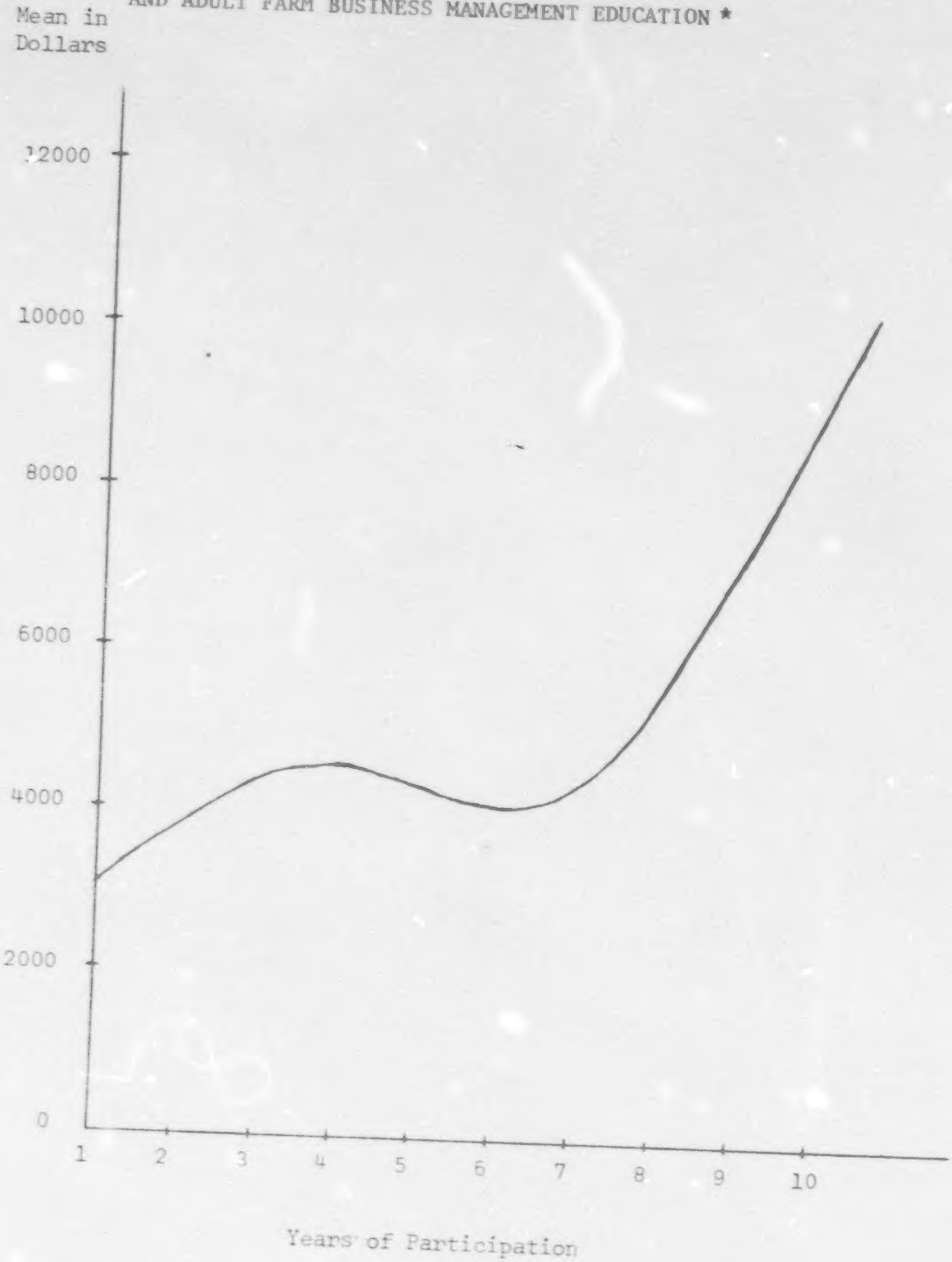


Figure 1. RELATIONSHIP BETWEEN MEAN LABOR EARNINGS AND ADULT FARM BUSINESS MANAGEMENT EDUCATION

* Persons, Edgar et al., Investments in Education for Farmers: Summary of an Economic Study of the Investment Effects of Education in Agriculture, Division of Agricultural Education, University of Minnesota, St. Paul, 1968.

Critique of Small Business Administration Films

Rodger E. Palmer, Small Business Management Education Project
University of Minnesota, St. Paul

The following films were viewed in whole or part through the cooperation of Mr. Robert Alm, SBA, Minneapolis. Comments and ratings refer to their relevance to the Small Business Management Education project conducted by the University of Minnesota under a U.S.O.E. grant. All films are ten to fifteen minutes in length. The rating scale includes fair, good, very good and excellent.

The films can be obtained from regional SBA offices. A list of these offices is available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

The Language of Business

1. Records and analysis of business data
2. Illustration of branching out to a second store
3. Accountant reliance
4. Covers explanation of balance sheet, profit and loss statement, inventory control record, monthly sales summary, and how they tie together
5. Good use of the example of a Black businesswoman making use of records (Several other examples used)
6. Essential basic knowledge of all business operators

Rated: Excellent

The Business Plan

1. Uses an appliance store and auto repair shop for illustration
2. Roadmap--written--facts to back up decisions
3. Illustration of departments within a total business
4. Lack of planning--effect on declining business
5. Good for going into business and for expansion efforts
6. Ties to SBA Small Management Aid 150, "Business Plan for Retailers"

Rated: Very Good

The Heartbeat of Business

1. Illustration of how a business operator had to get into serious financial difficulty before he started to pay attention to his financial statements.
2. Good for all sizes of operation

Rated: Very Good

Three Times Three

1. Keys to success of three different business operations
2. Appliance repair, meat market, rent-it shop illustrations
3. Very good for the small operators

Rated: Very Good

A Lot of Hats to Wear

1. Variety of roles in a small business, other than just being a businessman
2. Uses vehicle of a pre-business workshop to illustrate problems
3. Good for new business operators (establishment phase)

Rated: Good

You and Your Customer

1. Customer service and customer complaints--your attitude toward them
2. Building good will; problems
3. Business image

Rated: Very Good

The Antique Man

1. A story about SCORE (Service Corps of Retired Executives)
2. Good for use by the Chamber of Commerce and other business groups with potential SCORE volunteers

Rated: Fair

A Case in Point

1. Story of a stenographer service firm going through a business crisis
2. Assistance from an attorney directed owner to SBA
3. Illustrates team effort of SBA

Rated: Very Good

Man or Woman for the Job

1. Recruiting the right man or woman for the job
2. Personnel problems--the boss's responsibility
3. Good for all sizes of businesses
4. Illustrates basic hiring procedures

Rated: Very Good

The Advertising Question

1. Uses a pharmacy for illustration
2. "Point of sale" advertising vs. advertising to "get people into the store"
3. Good illustration of "wrong" techniques to increase sales
4. Might use a newspaper representative to add to this film presentation

Rated: Excellent

The Follow-Up

1. Use of coupons in a give-away to get names for follow-up sales planning used for illustration
2. Supplementing advertising with follow-ups
3. Evaluating advertising campaign through follow-up

Rated: Good

The Calendar Game

1. Seasonal timing and planning
2. Using the right media in planning a sales campaign
3. Good for larger businesses

Rated: Fair

Variation on a Theme

1. Sales promotion during peak periods; planning emphasis
2. Using "then and now" theme, other variations
3. Winning over the employees

Rated: Fair

The Seventh Chair

1. Credit and collection story
2. Basic procedures viewed" 3 C's of credit (capacity, capital, character)
3. Related to overall business operations

Rated: Very Good

Anything Is Possible With Training

1. Brings out idea of written job requirements
2. Probably applies to business with more than several employees

Rated: Fair

They're Out To Get You

1. Shoplifting story
2. Illustrates messy stores, jewelry stores, etc.
3. Shows the difference between pro's and amateurs.
4. Good for large or small retail operations

Rated: Very Good

It Can Happen To You

1. Embezzlement story, cash stealing, shoplifting
2. Stealing cash by employees
3. Techniques in detection
4. Generally covers a variety of problems

Rated: Very Good

Burglary Is Your Business

1. Big city situation used as illustration
2. Prevention emphasized

Rated: Good

The Inside Story

1. Internal theft, internal security system
2. Pilferage and morale problems
3. Good for all sizes of operations

Rated: Excellent

A Step In The Right Direction

1. Illustration of basic planning in a business
2. Example of how a successful businessman influenced another business
3. Deals primarily with inventory control

Rated: Fair

CE 009 649